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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
Rates Application

of

Westcoast Transmission Company Limited

SEPTEMBER 1979

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Part IV of the National Energy Board Act

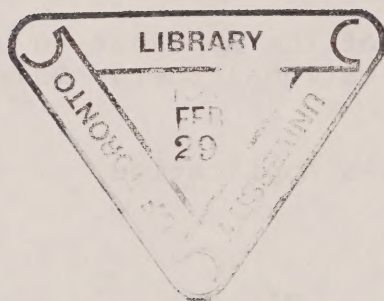
Rates Application

of

WESTCOAST TRANSMISSION COMPANY LIMITED

September 1979

Ce rapport est publié
séparément dans les
deux langues officielles.



NATIONAL ENERGY BOARD

IN THE MATTER OF an application by
Westcoast Transmission Company Limited
for certain orders respecting rates and
tolls pursuant to Part IV of the National
Energy Board Act.

(File: 1562-W5-3)

PHASE I HEARD AT Vancouver, British Columbia on:

28 February, 1, 2, 3, 6, 7, 8, 9, 10, 11, 13,
and 14 March 1978.

PHASE II HEARD AT Ottawa on:

11, 12, 13, 14, 17, 18, 19 and 20 July 1978,
6, 7, 8, 9, 12, 13, 14, 15, 16, 19, 20, 21, 22
and 23 February 1979, and
20, 21, 22, 23, 26, 27 and 28 March 1979.

PHASE III HEARD AT Vancouver, British Columbia on:

23, 24, 25 and 26 April 1979.

BEFORE:

C.G. Edge
L.M. Thur
R.F. Brooks

Presiding Member
Member
Member

APPEARANCES:

J.D. McAlpine)	
H. Poulus	)	Westcoast Transmission Company
C.D. Williams, Q.C.	)	Limited
P.M. Steele)	
J.M. Pelrine	)	British Columbia Petroleum
J.J.L. Hunter	)	Corporation
R.A. Snow)	
W.D. Mitchell)	
D.C. Duff	)	British Columbia Hydro and
Y.A.G. Hynna	)	Power Authority
A.R. O'Brien)	

D.M.M. Goldie, Q.C.	)	Inland Natural Gas Co. Ltd. and
C.D. Johnson	)	Peace River Transmission
		Company Limited
J.B. Ballem)	
M.V. McDill	)	Canadian Petroleum Association
D. Macnamara)	
G.M. Chernoff	)	Amoco Canada Petroleum Company Ltd.
R.G. Muir)	
S.J. Mulhall	)	Dome Petroleum Limited
D.W. MacFarlane	)	Mobil Oil Canada, Ltd.
G.M. Burden	)	Pan-Alberta Gas Ltd.
D.G. Hart	)	PanCanadian Petroleum Limited
D.H. Durham)	
A.P. Walker	)	Shell Canada Resources Limited
D.F. Robinson	)	Canada Cement Lafarge Ltd.
F.H.D. Dewdney	)	Cominco Ltd.
W. Fruehauf	)	Consumers Glass Company, Limited,
J. Galloway	)	Domglas Ltd. and Hiram Walker
	)	& Sons Ltd.
J.H. Konst)	
K.E. Gustafson	)	Hiram Walker & Sons Ltd.
W.A. Esson	)	Council of Forest Industries of
R.B. Wallace	)	British Columbia
L.E. Leonoff	)	Dow Chemical of Canada, Limited
A.E. Potter	)	Independent Petroleum Association
		of Canada
L. Mandell	)	Union of British Columbia
		Indian Chiefs
J.W. Lutes	)	Foothills Pipe Lines (South Yukon)
	)	Ltd. and Foothills Pipe Lines
	)	(Yukon) Ltd.
C.L. Campbelle)	
D.G. Gibson	)	TransCanada PipeLines Limited
G.M. McGuire)	
D.C. Hetland	)	Alberta Petroleum Marketing
		Commission

K.C. Mackenzie	)	Attorney General of
M. Moseley	)	British Columbia
L.E. Lindholm)	
B. Lukas	)	Greater Kamloops Chamber
	)	of Commerce
R.R. Dodd)	Fort Nelson Gas Limited
P.G. Griffin)	
K.J. MacDonald)	National Energy Board

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CHAPTER I

THE APPLICATION

Westcoast Transmission Company Limited ("the Applicant", "Westcoast" or "the Company") was incorporated by a Special Act of the Parliament of Canada on 30 April 1949. The powers of the Company included those of constructing and operating interprovincial and international pipelines and appurtenant facilities for the transmission of oil and gas, and of purchasing, selling, and distributing natural gas. On 16 August 1971, the Company was granted letters patent continuing it as a company under the provisions of Part I of the Canada Corporations Act, and on 5 May 1976, Westcoast was continued under the provisions of the Canada Business Corporations Act. As such, Westcoast is a "company" within the meaning of the National Energy Board Act, R.S.C. 1970, c. N-6, as amended ("the NEB Act").

Westcoast and its subsidiary companies own and operate a pipeline for the transmission of natural gas which extends from a point on the international boundary between Canada and the United States of America near Huntingdon, British Columbia, northwards through Hope, Merritt, Savona, Williams Lake and Prince George to a point near Chetwynd, British Columbia, where the main pipeline divides into two branches. One branch extends northwards to Fort Nelson and Beaver River, British Columbia, and then through the Yukon Territory to Pointed Mountain in the Northwest Territories.

The other branch extends eastwards to Fort St. John. From Fort St. John, the pipeline extends by way of two branches into the Province of Alberta at points on the British Columbia and Alberta border near Boundary Lake and Dawson Creek, British Columbia. The pipeline system includes gas processing plants and extensive gathering pipelines in the Fort St. John and Fort Nelson areas. At the international boundary at Huntingdon, British Columbia, the Westcoast system connects with that of Northwest Pipeline Corporation.

As part of its pipeline business, Westcoast purchases and sells the gas which is transmitted through the pipeline. In the case of gas originating in British Columbia and the Yukon and Northwest Territories, it processes that gas. The gas so transported is purchased in the Provinces of British Columbia and Alberta and in the Yukon and Northwest Territories. Over 99 percent of the gas purchased by the Applicant and transmitted through its pipeline is sold and delivered to four companies, three of these being in the Province of British Columbia -- British Columbia Hydro and Power Authority ("BC Hydro"), Inland Natural Gas Co. Ltd. ("Inland") and Pacific Northern Gas Ltd. ("Pacific Northern") -- and the fourth being Northwest Pipeline Corporation ("Northwest") in the United States to which gas is exported under the authority of Licence No. GL-41, issued by the Board under Part VI of the NEB Act. Gas sold in the export market

currently represents some 60 percent of the throughput of the Applicant's pipeline system.

While Westcoast originally purchased natural gas from various producers in the Province of British Columbia, effective 1 November 1973, the Company assigned its producer contracts to the British Columbia Petroleum Corporation ("BCPC"), and since that time has purchased substantially all of its gas of British Columbia origin from BCPC, under the terms of an Agreement dated 13 November 1973 ("the BCPC Agreement").

By an application dated 15 September 1977, Westcoast applied to the Board for an order or orders under sections 50 and 53 of the NEB Act giving effect to the tolls which Westcoast proposed in its application to charge for gas produced in British Columbia and sold by the Company to its British Columbia and export customers, and disallowing any tolls and tariffs inconsistent with the proposed new tolls and tariffs. Application was also made under section 53(1) of the Petroleum Administration Act ("PAA") for an order or orders amending the existing Special Orders under Part III of the PAA in relation to gas produced in the Province of Alberta and the Yukon and Northwest Territories, to reflect the new cost of transmitting that gas through the Company's pipeline. The tolls proposed in that application were derived using the calendar year 1976 as a base year and the calendar year 1977 as a test year.

By Order No. RH-2-77, the Board set down for hearing the application under Part IV of the NEB Act. At a pre-hearing conference in Vancouver on 31 January 1978, consideration was given to various procedural matters affecting the conduct of the hearing. As a result of that conference, the Board issued Order No. PO-2-RH-2-77 dealing with the hearing procedures. Copies of these Orders appear as Appendices I and II to this Decision.

In the procedural order, the Board directed that the hearing be conducted in phases dealing with the issues raised in the Company's application in the following order:

- | | |
|-----------|---------------------------------------|
| Phase I | (a) Depreciation |
| | (b) Income Taxes |
| Phase II | (a) Rate Base and Cost of Service |
| | (b) Rate of Return |
| Phase III | Rate Design and Other Tariff Matters. |

The hearing of Phase I was conducted from 28 February to 14 March 1978, and in May 1978 the Board issued its Decision and Reasons for Decision on the depreciation and income tax issues. The conclusions reached by the Board were:

- (1) With respect to Westcoast's gathering lines and production extraction plants, the Board accepted the

Company's proposal to depreciate these facilities at straight-line rates determined on a unit-of-production basis at the rates of depreciation set out in Appendix III to that Decision;

- (2) With respect to the main transmission plant of the Company, the Board directed that Westcoast continue to depreciate those assets at the then existing rates of 2.0 percent for mains and 3.33 percent for compressor and measuring equipment, for plant allocated to domestic sales, while plant allocated to exports was to be recovered over the remaining period of export licence;
- (3) With respect to income taxes, the Board directed Westcoast to change over to the normalized method of accounting for corporate income taxes and to include in its cost of service income taxes for the current period based on the normalized method;
- (4) With respect to deferred income taxes arising from past operations of the Company since 1957, and referred to as "catch-up" taxes, the Board directed that these "catch-up" taxes be recovered in the cost of service in respect of domestic sales over a 25-year period and in respect of export sales over the remaining life of Licence No. GL-41;

- (5) Westcoast was directed to propose a specific method of allocating normalized taxes, "catch-up" taxes and depreciation of its main transmission plant as between its export and domestic business based on the guidelines set out in the Phase I Decision.
- (6) With respect to the funds recovered in the cost of service on account of the deferred tax liability, the Board directed that these funds be deducted from the rate base of Westcoast; and
- (7) The specific method of allocating taxes and depreciation to domestic sales and exports within the framework of the guidelines given, and the question of whether the rate of return on equity should reflect any risk associated with the use of funds generated by deferred taxes, were reserved for further consideration in Phase II of the hearing.

The hearing of Phase II(a) of the Westcoast application commenced on 11 July 1978 and continued until 20 July 1978, when it was adjourned by reason of applications made for a review of certain aspects of the Phase I Decision.

In June 1978, four applications were filed under section 17(1) of the NEB Act for a review of the Phase I Decision. Those applications were filed on behalf of:

- (1) the Attorney General of British Columbia ("AGBC"),
- (2) the BCPC,

- (3) the Council of Forest Industries of British Columbia ("COFI"), and
- (4) Cominco Ltd., Consumers Glass Company Limited, Domglas Inc. and Hiram Walker and Sons Ltd.

These applications essentially sought a review of the following aspects of the Phase I Decision:

- (1) the Decision of the Board to require Westcoast to change over to the normalized method of accounting for corporate income taxes and to include current taxes calculated on that basis in its cost of service;
- (2) the decision to require Westcoast to provide for the "catch-up" of deferred income taxes in its cost of service; and
- (3) the decision to require Westcoast to propose a specific allocation method for the purpose of a possible allocation of current normalized income taxes, "catch-up" income taxes and depreciation of its main transmission plant to the export and domestic components of its business, on the basis of the guidelines contained in the Phase I Decision.

As a result of the hearing of the applications for a review on 26 July 1978, the Board concluded that it should undertake a review of the above aspects of the Phase I Decision and that the review should proceed on the basis of the record of the

original Phase I hearing and the submissions made on 26 July 1978; the Board concluded that no case had been made for adducing any additional evidence relating to the issues considered in Phase I of the hearing.

In November 1978, the Board issued its Decision on the applications for review of the Phase I Decision. The Review Decision upheld the original Phase I decision that it would be appropriate, in seeking to achieve just and reasonable tolls to be charged by Westcoast, to permit the Company to change to the normalized method of income tax accounting and to recover normalized income taxes on a current basis in its cost of service. With respect to the "catch-up" of past deferred taxes, the Phase I Decision was varied by rescinding the decision to require Westcoast to recover past deferred taxes in its cost of service, in respect of exports over the remaining life of Licence No. GL-41 and in respect of domestic sales over a 25-year period. The Review Decision also concluded that the issue of the allocation of depreciation, income taxes and plant as between the export and domestic business of the Applicant, should be left for further consideration and a final decision thereon in the succeeding Phases of the hearing.

In December 1978, the Board issued a Memorandum to all Parties and Order No. PO-5-RH-2-77 dealing with the procedures applicable to the hearing of the remainder of Phase II and Phase III of the Westcoast application. The Memorandum

and Order appear as Appendix III to this Decision. The Board directed Westcoast to update its application of September 1977 so as to provide actual data for the 1978 calendar year as the base year and forecast data for the period from 1 July 1979 to 30 June 1980 as the test year. As a result of the Review Decision which left for consideration in the remainder of the hearing matters relating to the depreciation rates on Westcoast's main transmission plant, the Board directed that it would hear evidence on all aspects of that question in the continuation of Phase II(a) of the hearing. Westcoast was directed, in filing its updated application, to apply for such treatment of the depreciation of its main transmission plant as it considered appropriate.

The Board further directed that, on the resumption of the hearing on 6 February 1979, it would first hear the evidence and argument on the following issues:

- (1) Title to the gas produced in British Columbia and transmitted by Westcoast through its pipeline system; and
- (2) Westcoast's submission dated 18 October 1978 respecting the interrelationship of Part IV of the NEB Act with the BCPC Agreement.

The Board heard evidence and argument on these issues on 6, 7, 8, 9 and 23 February 1979. By reason of the impact of

the various issues relating to the scheme of regulation of the tariffs and tolls of Westcoast upon the conduct of the remainder of the hearing, the Board issued its Decision on 20 March 1979 respecting the essential features of the method of regulation. The full text of that ruling is set out in Appendix IV to this Decision.

The hearing of Phase II of the application was completed in February and March, 1979, and the hearing of Phase III in April 1979.

The Westcoast application encompassed not only assets owned by the Company, but also those of three subsidiary companies, Gas Trunk Line of British Columbia Ltd. ("Gas Trunk"), Westcoast Transmission Housing Ltd. and Westcoast Transmission Company (Alberta) Ltd. ("Westcoast Alberta"), although the Applicant allocated the costs and assets associated with the pipeline of the latter company to a separate section of its system, and did not include them in the tolls proposed in its application.

Gas Trunk, a company originally incorporated under the laws of British Columbia, and a wholly owned subsidiary of Westcoast, owns certain pipeline facilities included in the Applicant's Fort St. John gathering system. During Phase I of the hearing, the AGBC objected to the inclusion of Gas Trunk's pipeline facilities in Westcoast's application, because those facilities were constructed under provincial authorization and were the subject of an agreement which had been filed as a

tariff with the British Columbia Energy Commission ("BCEC"). In April 1978, Westcoast applied under Part III of the NEB Act for a certificate of public convenience and necessity authorizing it to operate the pipeline facilities owned by Gas Trunk. In July 1978, Gas Trunk was continued as a company under the provisions of the Canada Business Corporations Act. In January 1979, the Board issued Certificate of Public Convenience and Necessity No. GC-60 to Westcoast authorizing it to operate the facilities of Gas Trunk. Consequently, the status of Gas Trunk and its pipeline facilities were no longer in issue in Phase II and III of the hearing.

Westcoast Alberta owns and operates a pipeline situated in the Province of Alberta and connecting with the facilities of the Applicant at a point east of the British Columbia/Alberta boundary. The Westcoast Alberta pipeline moves gas produced in various fields in Alberta to the Applicant's system. Under the scheme of natural gas pricing established under the PAA and the Natural Gas Pricing Agreement Act of the Province of Alberta, Westcoast Alberta recovers the cost of service for its pipeline through the Alberta Petroleum Marketing Commission as a component of the Alberta cost of service. As a result, it is unnecessary in deriving tolls for the Applicant under Part IV of the NEB Act to include any costs applicable to the facilities of Westcoast Alberta, because alternative provisions exist for the recovery of those costs.

CHAPTER 2

THE REGULATION OF THE TOLLS AND

TARIFFS OF WESTCOAST

In the ruling on 20 March 1979 respecting the method for the regulation for the tolls and tariffs of Westcoast, the Board stated:

It is the Board's decision that the final order resulting from this hearing will be one under Part IV of the National Energy Board Act which will prescribe or otherwise provide for the tolls for Westcoast. The toll will be of a cost of service type with prospective control over costs. Such order will not result in any variation at the initiative of the Board in the price of natural gas specified in the contracts of sale between Westcoast Transmission and the various distributors in British Columbia, which contracts are filed with the Board as tariffs under section 51(2) of the National Energy Board Act.

What follows are the Board's reasons for that decision on the scheme of regulation for Westcoast.

BACKGROUND

In order to determine the most appropriate method of regulation for Westcoast, it is necessary to consider the circumstances under which the Company operates its pipeline.

From the time it commenced operations in 1957, the Applicant has engaged in the business of purchasing and selling the natural gas transmitted through its pipeline. The Applicant has purchased gas under contract from producers in Alberta and the Northwest and Yukon Territories and, prior to 1 November 1973, from producers in British Columbia. The Company has sold that gas to its export customer and the gas distributors in British Columbia. The sales of export gas have been made under various contracts with the export purchaser; the current contract is the Fourth Service Agreement¹ dated 10 October 1969 with Northwest Pipeline Corporation. The provisions of the Fourth Service Agreement have been overridden in part by Licence No. GL-41, particularly with respect to the export price of the gas. The contracts² of sale with the British Columbia distributors and amendments to those contracts made from time to time, have been filed with the Board by Westcoast pursuant to subsection 51(2) of the NEB Act.³ Those contracts, which are deemed by subsection 51(2) of the NEB Act to be tariffs, have not as yet been subject to active regulation by the Board.

1. Exhibit 105.

2. The contracts and amendments to them are set out in Exhibits 6 and 283.

3. Subsection 51(2) of the NEB Act provides:

51.(2) Where the gas transmitted by a company through its pipeline is the property of the company, the company shall file with the Board, upon the making thereof, true copies of all the contracts it may make for the sale of gas and amendments from time to time made thereto, and the true copies so filed shall be deemed, for the purposes of this Part, to constitute a tariff pursuant to subsection (1).

Commencing on 1 November 1975, the price at which Westcoast purchases natural gas produced in Alberta and the Yukon and Northwest Territories became regulated by orders⁴ made under section 53 of the PAA. Since gas produced outside British Columbia and entering the Westcoast system is deemed for pricing purposes to be exported from Canada, the price paid for that gas is equal to the export price minus the cost of service on the Westcoast system for transporting the gas from the point of purchase to the international boundary. That cost of service has been a variable one calculated on a monthly basis under cost allocation procedures approved by the Board in July 1975, and similar to the method of determining the Company's cost of service under the BCPC Agreement.

With respect to natural gas produced in British Columbia, Westcoast entered into the BCPC Agreement effective 1 November 1973. Under that agreement, Westcoast assigned to the BCPC its contracts for the purchase of gas from producers in British Columbia. The BCPC agreed to sell to Westcoast those volumes of gas required by the Company to meet its contractual obligations under its sales contracts with Northwest and the British Columbia distributors. Paragraph 11 of the BCPC Agreement provides that the price of the natural

-
4. The Orders under section 53 of the PAA which are currently in force are:

Westcoast Transmission Company Limited Export Price Order, SOR/78-106, as amended

Yukon and Northwest Territories Export Price Order, SOR/78-99, as amended.

gas purchased by Westcoast from the BCPC is an amount of money equal to Westcoast's gross revenues on the resale of the gas less the total cost of service of Westcoast's utility system operations for the month such resale takes place. That cost of service is determined in accordance with paragraph 12 of the BCPC Agreement. The effect of the gas purchase arrangement under the BCPC Agreement is that the cost of service retained by Westcoast out of its gross revenues varies from month to month. Consequently, the unit cost of natural gas purchased from the BCPC for purposes of domestic and export sales also varies from month to month.

While the Board has not actively regulated the contracts of sale between Westcoast and the British Columbia distributors, which are filed as tariffs, there has been an informal process in existence since 1973 whereby the price of gas specified in those contracts has been increased periodically. Once a year, the BCEC conducts an inquiry into the market prices of gas sold in British Columbia and the field prices paid to British Columbia producers, and makes a recommendation to the Government of British Columbia respecting appropriate price levels for the coming year. Where that government decides there should be a price increase for natural gas in the Province, it directs the BCPC to increase the field price paid to the producers. The Government also requests the British Columbia distributors to amend their contracts with Westcoast so as to increase the commodity charge component of

the sale price of the gas. Under this process, the increases in the price of gas sold by Westcoast to the distributors have been made coincidentally with increases in the field prices paid by the BCPC to the producers. There is no legislative scheme under which this process operates. Once the distributor contracts are amended, Westcoast files the amendments with the Board under subsection 51(2) of the NEB Act.

In anticipation of Westcoast's application to this Board respecting the Company's tolls and tariffs, the BCPC Agreement was amended on 1 June 1977 by adding a further provision respecting the price of gas. This amendment states that the price of gas in Westcoast's sales contracts to the British Columbia distributors shall be based upon:

- (a) a base price (of the gas itself) specified from time to time by the BCPC as an expression of British Columbia Government policy, and
- (b) transportation charges allocated to each domestic distributor.

In practice, whenever the distributor and field prices of natural gas are increased as a result of a British Columbia Government decision to do so, the BCPC states a new "base price" to the Applicant. The base price does not, however, equate to the unit price of gas paid by Westcoast to BCPC for gas purchased under the BCPC Agreement, since that price is considerably higher by reason of the higher revenues resulting

from export sales. From the evidence, it also appears that the base price is not necessarily the actual cost of gas component contained in the distributor prices. While increases in the distributor prices since 1 November 1973 have been approximately equal to the increases in field prices, the distributor price increases were merely added to the contract prices negotiated between Westcoast and the distributors prior to that time. As a result, the Company was unable to indicate what component of the existing sale prices represented the cost of gas as opposed to Westcoast's transmission charges.

The cost of service retained by Westcoast out of the gross revenues from its gas sales, before paying the balance to the BCPC as the cost of gas purchased, is determined in accordance with paragraph 12 of the BCPC Agreement. The monthly cost of service calculation is based, inter alia, upon the following:

- (1) Operating expenses for the month properly charged to accounts 610 to 689 of the Board's Gas Pipeline Uniform Classification of Accounts;
- (2) Depreciation recorded by Westcoast for its pipeline assets using the rates and procedures approved by the Board;
- (3) Accruals for each month of various expenditures eligible for amortization under the Board's Uniform Classification of Accounts;
- (4) Accruals recorded for the billing month in respect of income and other taxes associated with Westcoast's utility operations;

- (5) A return calculated for each month as one-twelfth of an annual rate as specified or subsequently settled by agreement or arbitration, upon the net rate base for each month;
- (6) The net rate base being the original investment by Westcoast in gas plant in service, gas plant held for future use, and related capital expenditures, less the balance in depreciation and amortization reserves and contributions in aid of construction. The net rate base also includes a working capital allowance.

As of 1 November 1973, the Westcoast rate base was to be that set out in Westcoast's application to the Board dated 10 October 1973 under Part IV of the NEB Act. Under these provisions, Westcoast's earnings after expenses were to be based solely upon the return on its rate base; that is, the return on its pipeline assets used for gathering, processing and transmitting natural gas. Westcoast has not made any profit upon the purchase and sale of the natural gas itself.

Paragraph 15 of the BCPC Agreement provides as follows:

- 15. Alteration of Rate: Whenever the National Energy Board, in the exercise of its statutory jurisdiction, makes an order, ruling or other decision affecting the cost of service chargeable by, rate of return due to, or rate base of Westcoast, such decision shall be binding on the parties as a redetermination, under paragraph 21 hereof, but shall be subject to further redetermination by the said paragraph.

THE POSITION OF THE PARTIES ON
THE METHOD OF REGULATION

In its application, Westcoast requested the Board to exercise its jurisdiction over tariffs and tolls by establishing firstly a "fixed tariff" and secondly a "cost of service toll". By a fixed tariff, the Applicant was referring to the price at which Westcoast sells natural gas to the domestic distributors, which price it was submitted should be fixed for a period of time so as to give stability to the gas market in British Columbia. The cost of service toll envisaged by the Company would operate solely as between the Applicant and the BCPC and out-of-province producers selling gas to it. The cost of service toll would be one which varies from month to month similar to the cost of service determined under the BCPC Agreement. Westcoast submitted that it required a cost of service toll because of the following unique circumstances applicable to its operations:

- (1) Unlike the other gas pipelines under the Board's jurisdiction, Westcoast not only transmits gas in marketable condition, but also gathers and processes that gas. According to the Company, it is subject to substantial variations in operating costs in its gathering and processing facilities due to changes in the quality of gas supplied to it by various producers and to equipment failures.

(2) Westcoast's capital expenditures are dictated in part by provincial government objectives, with the result that Westcoast can be called upon to make substantial investments in gathering facilities upon relatively short notice in situations where those investments may be of a more marginal nature for the purpose of encouraging producers to explore and develop a particular area.

(3) The Applicant submitted that if the Board imposed a fixed toll arrangement upon the operation of the BCPC Agreement, that would operate to frustrate the BCPC Agreement.

With respect to the implementation of the cost of service toll, Westcoast submitted that the Board could either

(1) grant an order permitting Westcoast and the BCPC to continue their cost of service arrangement as long as it remains in force, subject to such alterations as the Board might order, or

(2) by its own order without reference to the BCPC Agreement, provide for a cost of service toll.

The BCPC submitted that section 61 of the NEB Act provided the basis upon which the Board is required to regulate the tolls and tariffs of Westcoast. That section states:

61. Where the gas transmitted by a company through its pipeline is the property of the company, the differential between the cost to the company of the gas where it enters its pipeline and the amount for which the gas is sold by the company shall, for the

purposes of this Part, be deemed to be a toll charged by the company to the purchaser for the transmission thereof.

BCPC submitted that by operation of this section, since Westcoast purchases and sells the gas transmitted through its pipeline, the Board was compelled to regulate Westcoast's tolls solely by varying the sale price of the gas stipulated in the contracts between Westcoast and the British Columbia distributors which are deemed to be tariffs under section 51(2).

BCPC also took the position that the Board could not, either directly or indirectly, regulate the cost of service determined under the BCPC Agreement. It was argued that the BCPC Agreement is one by which Westcoast purchases gas and the Board has no jurisdiction to regulate the price at which a gas pipeline company purchases natural gas.

BCPC acknowledged that, under the above approach, the toll set by the Board and included in Westcoast's sale price of gas would inevitably be different from the cost of service determined under the BCPC Agreement, and that in practice it would be the BCPC Agreement which would ultimately determine the earnings of Westcoast from gathering, processing and transmitting natural gas. It was the BCPC's submission that there was nothing the Board could do about that situation in Westcoast's case. BCPC analogized the situation of the BCPC Agreement to one where the Applicant makes a contract for labour or materials. If the Board considers the transaction imprudent,

if can vary the amount of that cost or disallow it entirely in setting the tolls, but the Board cannot take the further step of overturning the actual contract for labour or materials.

The AGBC agreed that the Board could regulate the tolls and tariffs of Westcoast through the vehicle of sections 51(2) and 61. The AGBC also suggested that the Board could use its general power over tolls under section 50 to regulate the cost of service determined under the BCPC Agreement because of the position of the British Columbia Government on its preference as to the method of regulation. The AGBC filed a letter from the Minister of Energy, Mines and Petroleum Resources in this respect, which is set out as Appendix V to this Decision. The British Columbia Government indicated that it wished the wholesale price of gas to the British Columbia distributors to remain unchanged. To facilitate that proposal, any increases in Westcoast's cost of service would be absorbed by the Province under the mechanism of the BCPC Agreement. The Province might pass on increases in Westcoast's cost of service, in whole or in part, through an increase in the wholesale price of gas through the process of gas price increases described previously. It was also indicated in this letter that future changes in the wholesale price of gas would be made through the base price mechanism set out in the BCPC Agreement.

THE JURISDICTION OF THE BOARD
AND THE REGULATION OF THE TOLLS
AND TARIFFS OF WESTCOAST

Under Part IV of the NEB Act, the tolls to be charged by Westcoast must be just and reasonable. Section 50 of the NEB Act provides that the Board may make orders with respect to all matters relating to traffic, tolls or tariffs. In addition to that general power, the Board is also given the following powers under Part IV:

- (1) Section 53 provides that the Board may disallow any tariff or any portion thereof that it considers to be contrary to any of the provisions of the NEB Act or to any order of the Board, and may require a company, within a prescribed time, to substitute a tariff satisfactory to the Board in lieu thereof, or may prescribe other tariffs in lieu of the tariff or portion thereof so disallowed.
- (2) By section 54, the Board may suspend any tariff or portion thereof before or after the tariff goes into effect.
- (3) Under section 58, the Board may determine the extent to which the liability of a company may be impaired, restricted or limited in respect of the transmission of hydrocarbons, and the Board may prescribe the terms and conditions under which hydrocarbons may be transmitted by a company.

While the NEB Act requires all tolls to be just and reasonable, it does not define or prescribe what constitutes just and reasonable tolls or the methods or considerations by which the Board is to fix such tolls. Section 52 of the Act does provide that, under substantially similar circumstances and conditions, tolls shall be charged equally to all persons at the same rate with respect to all traffic of the same description carried over the same route. Section 55 precludes a company from making any unjust discrimination in tolls, service or facilities against any person or locality.

There are two particular provisions in Part IV of the NEB Act which apply in those situations where the gas transmitted by a company through its pipeline is the property of the company. Section 61 provides that the differential between the cost to the company of the gas at the point where it enters its pipeline and the amount for which the gas is sold by the company shall, for the purposes of Part IV, be deemed to be a toll charged by the company to the purchaser of the gas for the transmission thereof. Subsection 51(2) requires a company to file with the Board true copies of all the contracts it may make for the sale of gas and amendments made thereto from time to time, and the contracts so filed are deemed, for the purposes of Part IV, to constitute tariffs.

While the term "tariff" is not defined by the NEB Act, it would clearly include all the provisions of a contract

of sale of natural gas relating to the nature of the services and facilities provided by a company to the purchaser of the gas. The Board's jurisdiction would also extend to any provisions of such a contract relating to limitations of liability and the terms and conditions under which gas is transmitted by a company. Moreover, the Board has the jurisdiction to vary the price at which gas is sold by a company under such a contract as a necessary incident of the Board's powers to regulate the tolls charged by a company.⁵ In this way, the Board has the ability to ensure that the requirements of section 52 are met with respect to tolls and that a company does not make any unjust discrimination in tolls, services and facilities contrary to section 55.

Under Part IV of the NEB Act, the Board does not have the jurisdiction to regulate the price at which a company operating a gas pipeline purchases the natural gas transmitted through the pipeline.

Sections 51(2) and 61, by their deeming provisions, provide a means by which the Board can regulate the tolls of a gas pipeline company which owns the gas which is transmitted through its pipeline. The Board does not, however, accept the argument advanced by the BCPC that the NEB Act compels the Board to regulate the tolls deemed to exist by section 61, solely by varying the sale price of gas stipulated in those contracts deemed to be tariffs by subsection 51(2). It is the

5. Northern and Central Gas Corporation Limited v. Trans-Canada Pipe Lines Limited, (1971) F.C. 149.

Board's opinion that, subject to the requirements of section 52, it is within the Board's discretion to select the method of regulating the tolls and tariffs of a company which is the most appropriate in the particular circumstances of that company.

In the circumstances of Westcoast, the Board does not consider that varying the sale price of the gas specified in the distributor contracts to be the most appropriate method to regulate the Company's tolls, by reason of the fact that there is no fixed price at which gas is purchased by Westcoast. In the case of gas produced in British Columbia, the base price stipulated in paragraph 11 of the BCPC Agreement is not in fact the price at which Westcoast purchases gas from the BCPC. Nor is that base price reflected in the sale prices to the British Columbia distributors. The price of British Columbia origin gas to Westcoast varies each month depending upon its cost of service. Using the approach contained in section 61, the Company's cost of service, which is the toll deemed to exist by that section, can only be determined when the cost of gas is known. In Westcoast's situation under the BCPC Agreement, the cost of gas produced in British Columbia can only be determined after the Company's cost of service or tolls are ascertained. Moreover, the prices in the distributor contracts are not based on any methodology reflecting the cost of the gas to Westcoast or the Company's tolls. They are based on historical negotiations plus the more recent gas price increases initiated by the Government of British Columbia.

In any event, if the Board were to regulate Westcoast's tolls only by varying the sale price in the section 51(2) tariffs, the Board would not in the final analysis be regulating the tolls actually retained by Westcoast in relation to British Columbia origin gas. While the Board would set the toll to be included in the overall sale price of natural gas sold to the British Columbia distributors, the BCPC Agreement would then operate so as to vary the actual amount of the tolls or cost of service retained by Westcoast.

A similar problem exists with respect to regulating Westcoast's tolls in relation to gas produced outside British Columbia. Under the PAA Orders, the price paid by Westcoast for that gas is specified to be the difference between the Applicant's gross revenues on the sale of that gas at the export price and its cost of service in respect of that gas. In other words, the tolls for that gas must be determined first in order to arrive at the cost of the gas to the Company.

In these circumstances, the Board considers it more appropriate to utilize an alternative approach to the regulation of Westcoast's tolls, using the Board's general power to make orders with respect to all matters relating to tolls under section 50 of the NEB Act. Under this approach, the Board would prescribe the tolls which Westcoast may withhold from its gross revenues on the sale of all gas sold in

the domestic and export markets prior to paying the balance of the revenues as the cost of gas to the BCPC and the out-of-province producers.

The BCPC submitted that the Board could not regulate the cost of service determined under the BCPC Agreement because that Agreement is one whereby Westcoast purchases gas and the Board has no jurisdiction to regulate the price at which a gas pipeline company purchases natural gas. The Board might accept the BCPC's argument if the BCPC Agreement only provided for the price of the gas purchased by Westcoast, or if it only used the Westcoast tolls or cost of service, otherwise determined, as a means of calculating that price. The BCPC Agreement, however, does more. It expressly provides the mechanics by which the cost of service or tolls for Westcoast are to be determined, a function which is conferred upon the Board by the NEB Act.

Section 2 of the NEB Act defines a "toll" as follows:

"toll" includes

- (a) any toll, rate, charge or allowance charged or made for the shipment, transportation, transmission, care, handling, or delivery of hydrocarbons, or for storage or demurrage or the like.

While the cost of service determined in accordance with the BCPC Agreement is not actually paid by the BCPC to Westcoast, the Agreement specifies what Westcoast may charge for, or makes an allowance to Westcoast out of its sales revenues for the

gathering, processing and transmission of natural gas. The cost of service determined under the Agreement is thus a toll. That is clear from the express terms of the BCPC Agreement and, in particular, paragraphs 12 and 15 of that Agreement. Equally, the cost of service determined under the BCPC Agreement falls within the definition of the deemed toll under section 61 of the NEB Act.

In argument, Westcoast submitted that the Board could regulate the Company's tolls either by making an order permitting Westcoast and BCPC to continue their cost of service arrangement subject to such alterations as the Board might order, or by making an order without reference to the BCPC Agreement providing for the variable cost of service toll. In the Board's view, the latter approach is the appropriate one to be utilized. Part IV of the NEB Act does not give the Board the jurisdiction to vary contracts except for those which are filed with the Board under subsection 51(2) and deemed to be tariffs. The BCPC Agreement is not a contract for the sale of gas by a pipeline company within the meaning of that subsection, and it has not otherwise been filed with the Board as a tariff under subsection 51(1). The Board can, however, by order provide for the tolls to be charged by Westcoast and that order would operate to supersede the provisions of the BCPC Agreement to the extent that the order and that Agreement are inconsistent. This would occur even if paragraph 15 of the BCPC Agreement did not exist.

In adopting this approach to the regulation of Westcoast's tolls, the Board is satisfied that it can adequately regulate the tolls of the Company in the present circumstances and that it is unnecessary to vary the price at which Westcoast sells gas under the contracts of sale which are deemed by subsection 51(2) to be tariffs. In addition, the Board is prepared to permit the continuation of the existing practices by which the prices of natural gas specified in those contracts are varied from time to time at the instance of the Government of British Columbia. The Board, of course, retains its full jurisdiction over the tolls and tariffs of Westcoast, including all the provisions of the subsection 51(2) tariffs which are subject to regulation by the Board under Part IV of the NEB Act.

While the Board considers the above approach to the regulation of Westcoast's tolls and tariffs to be the most appropriate in the existing circumstances, the Board would, of necessity, have to reassess the entire approach should there be any significant alteration of the existing circumstances. Such a major change giving rise to a reassessment of the approach would be the termination of the BCPC Agreement.

Westcoast requested the Board to permit the use of the variable cost of service approach in the regulation of the Company's tolls. While the Board is by no means satisfied that a fixed toll would result in the frustration of the BCPC Agreement as alleged by the Company, the Board is satisfied

that the other reasons put forward by the Company justify the use of the variable cost of service approach. This is in fact the approach in use now both under the BCPC Agreement and under the PAA Orders and the Board sees no reason of substance to change it.

METHOD FOR REGULATING
THE TOLLS OF WESTCOAST

In its application, Westcoast requested the Board to implement both the "fixed tariff" and the "cost of service toll", as described earlier in these Reasons for Decision. The Board only considers it necessary to regulate the tolls charged by the Applicant without varying the prices specified in the existing tariffs on file with the Board. In regulating the tolls, the Board considers the variable cost of service toll to be the most appropriate.

With respect to the regulation of the variable cost of service toll, the Applicant filed a suggested methodology for monitoring and controlling that type of toll.⁶ The essential features of the proposal advanced by Westcoast are:

- (1) The Board would prescribe the methods and parameters by which Westcoast would recover various costs such as depreciation, income taxes and its return on rate base in the monthly cost of service.

6. Westcoast's suggested methodology is set out in Exhibit 308.

- (2) With respect to other costs, which are primarily operating and maintenance costs, these costs would not be directly controlled by the Board in advance of expenditure.
- (3) Prior to the commencement of each fiscal year, Westcoast would file with the Board an estimate of its operating and maintenance expenses for review by the Board. The Board would either approve those estimates or amend them.
- (4) The Company would file quarterly reports with the Board during the course of the fiscal year setting out the actual operating and maintenance expenses charged to the end of each quarter to accounts 610 to 889 inclusive of the Board's Uniform Classification of Accounts.
- (5) During the course of the fiscal year, the Company would recover in its tolls the actual amount of operating and maintenance expenses incurred in each month.
- (6) If at the end of the fiscal year the actual operating and maintenance expenses exceed the budget previously approved by the Board, the Board would review the expenditures in excess of the approved budget. The Board would either approve those excess costs or direct their reimbursement to the BCPC and the out-of-province producers.

This method of regulation for the cost of service toll was envisaged by Westcoast to operate coincidently with the Board's regulation of the "fixed tariff", proposed by the Company, which presumably would have been done by the traditional method of periodic public hearings. While there may have been some merit to Westcoast's proposed method had the Board regulated both a fixed tariff and a cost of service toll, the Board considers the Applicant's proposal to be inadequate where the only subject of regulation is to be the cost of service toll.

As indicated in the Board's ruling of 20 March 1979, the toll is to be of the cost of service type with prospective control over the various costs included in the toll. The major failing of the Westcoast proposal is that it would require the Board to vary costs after they have been incurred and recovered in the tolls charged by the Company. This appears to the Board to involve retroactive rate making, which the Board is not authorized to do under Part IV of the NEB Act.

The objective of the Board's approach to the regulation of Westcoast's tolls is for the Board to determine, before costs are incurred, the methods and parameters for computing the tolls and to approve annual budgets of operating and maintenance expenses that provide a limit on the actual operating and maintenance costs which can be automatically included in the cost of service.

The "cost of service" form of toll envisaged by the Board in this case is one under which the regulator allows the utility to adjust its charges on a monthly basis as costs incurred change in accordance with rules previously approved by the regulator. The rules specify the items of costs that can be recovered in the toll, the accounting principles to be followed in determining the tolls, the rate of return allowed on the investment in rate base, the depreciation rates and other parameters necessary for determining the cost of service.

The approach to be used is as follows:

Audit

1. The Board will audit Westcoast's calculations of rate base, cost of service and tolls at least once a year. The Board's audit reports will be public documents available for examination by interested parties.

Interested Parties

2. The Attorney General of British Columbia, the British Columbia Petroleum Corporation, groups representing out-of-province producers, and the customers of Westcoast will be granted interested party status in all matters related to tolls subsequent to the hearing called by the Board's Order No. RH-2-77.

Rate Base

3. Beginning with the first month the proposed method is applicable and as of the first of each succeeding month, a rate base shall be calculated by the Applicant using the principles set out by the Board in these Reasons for Decision and in Board Order No. TG-5-79. This shall include the rate base at 31 December 1978 as determined by the Board in accordance with these Reasons for Decision plus subsequent capital expenditures on construction approved by the Board under Part III of the NEB Act which have been recorded in the plant account set out in Schedule "D" to the NEB Gas Pipe Line Uniform Accounting Regulations, and appropriate adjustments to other rate base items including the working capital allowance. Deferred income taxes calculated on the basis approved by the Board are to be deducted from rate base. The rate base for toll purposes is to be the average of the opening and closing balances for the month.
4. Any new type of item proposed for inclusion in the subsequent monthly rate base determinations will require prior Board approval (and for items deemed by the Board to be significant will be subject to review by interested parties).
5. Westcoast's adjustment to its rate base from 31 December 1978 to the start of new tolls arising from the Decision in these proceedings is to be filed with the Board for the approval of the Board.

Cost of Service

6. The following represents costs that the Board is prepared to allow to be flowed through into the cost of service automatically, provided the principles or methods of computation have been previously approved, or where the costs are largely outside the control of the company:

- operating and maintenance expenses
 - (a) salaries, wages, and benefits
 - (b) other expensesfor each of these two items up to annual budget previously approved by the Board;
- municipal taxes (in the absence of unusual circumstances);
- depreciation;
- amortization (once the item to be amortized has been authorized);
- actual gains and losses on foreign exchange transactions;
- return before taxes on rate base; and
- miscellaneous operating revenues (as a credit to the cost of service).

7. The following represents costs for which interested parties will have the right to request a review and which require the approval of the Board:

- annual budget of operating and maintenance expenses (if Westcoast wishes to change from the year beginning 1 July, the Board would be willing to consider such a change);

- disposition of deferred costs arising from overruns of salaries, wages and benefits in operating and maintenance expenses and of other operating and maintenance expenses (deferral costs will include a monthly carrying charge of 1/12 of prime bank rate plus 1%);
 - changes in the bases of allocating Westcoast's administrative and general expense to its pipeline operations, changes in method of determining the overhead during construction, and changes in any other bases of allocating Westcoast's costs to its pipeline operations.
8. An application to change the basis of the principles or methods of determining costs in item 6 will require a public hearing.
9. Notwithstanding any of the foregoing, Westcoast may automatically include in the cost of service any unusual costs resulting from emergency actions, e.g., repairing a line break. The Board should be notified immediately of such costs and will rule whether the amounts recovered from these costs should be recorded as revenue or deferred pending an investigation by the Board.
10. In respect of any major unusual costs not provided for above, Westcoast is required to seek a prior ruling of the Board whether such costs can be automatically included in the cost of service or should be deferred.

11. Where Westcoast and/or interested parties request a review of certain costs or have complaints, apart from the matters identified in item 6 above, the Board, unless it otherwise orders, will deal with them by means of written submissions.

Efficiency and Productivity

12. Westcoast will be required to provide information to the Board and interested parties from time to time on the efficiency and effectiveness of its operations. The Board will determine the frequency of such reports. The form and content thereof will require the approval of the Board.

Information Requirements

13. Each month, Westcoast shall file with the Board, and if requested by any interested party, serve upon any such party, information in a form satisfactory to the Board on:
 1. derivation of rate base;
 2. components of cost of service;
 3. allocation of cost of service to -
 - (a) BCPC,
 - (b) Alberta producers,
 - (c) Northwest Territories and Yukon producers; and
 4. changes in Maximum Daily Volume Obligations ("MDVO's") used for allocating costs.

Written comments should be provided to give insight into significant matters.

14. Three months before the start of a new budget year, Westcoast shall submit to the Board and interested parties its detailed budgets for the ensuing year for salaries, wages and benefits included in operating and maintenance expenses and also for other operating and maintenance expenses. Interested parties if they wish to do so should make representations to the Board two months before the application of the new budgets. Subsequently, the Board will make known its decision on the authorized budgets for operating and maintenance expenses.

Clarification of Method for Regulating the Tolls

15. Where Westcoast or any interested party requires clarification of the method of regulation in relation to any situation arising in any month during the term of Order No. TG-5-79, a formal request should be made to the Board with a copy being served on interested parties.

CHAPTER 3

RATE BASE

The evidence adduced in the hearing was primarily directed towards the determination of the rate base for the test year beginning 1 July 1979. Because of the decision of the Board to authorize a monthly cost of service toll, the test period data are not applicable. As set forth in general terms in the "Method for the Regulation of the Tolls of Westcoast", the method now envisaged will require the determination of the approved rate base at 31 December 1978 (the last date when actual data was available) and of the rules for making the changes to rate base from that date to the current month. The Reasons for Decision are directed therefore towards these ends.

For the purpose of determining the initial rate base at 31 December 1978, the items included in Rate Base by Westcoast have been adjusted by the Board as indicated in this Chapter as follows:

	Rate Base As At 31 December 1978		
	<u>Applicant</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Gas Plant in Service	791,304,836	-	791,304,836
Accumulated Depreciation	<u>(216,860,417)</u>	<u>-</u>	<u>(216,860,417)</u>
Net Gas Plant in Service	574,444,419	-	574,444,419
Gas Plant Held for Future Use	5,367,070	-	5,367,070
Preliminary Surveys and Investigations	206,682*	-	206,682
Unamortized Abandoned Pipeline	763,502	(763,502)	-
Contributions in aid of Construction	<u>(1,224,434)</u>	<u>-</u>	<u>(1,224,434)</u>
Total Rate Base (excluding Working Capital)	<u>\$579,557,239</u>	<u>\$ (763,502)</u>	<u>\$578,793,737</u>

* The test year also includes \$3,127,393 for Northern Pipeline Projects "Maple Leaf"

PLANT IN SERVICE

The Gross Plant in Service based on information provided was determined to be \$791,304,836. The Accumulated Depreciation was established at \$216,860,417. As a result, the Net Plant in Service as of 31 December 1978 was \$574,444,419. This amount is approved by the Board for inclusion in the rate base as at 31 December 1978.

Plant Retirements

During the hearing Intervenor's questioned the Applicant's procedures concerning plant retirements indicating their concern

that retired plant is not removed from net plant and therefore the undepreciated value of retired plant remains in rate base.

Westcoast, in final argument, disagreed with the Intervenor's position that the undepreciated capital cost of retired plant is retained in rate base indefinitely and maintained that "it is amortized in the ordinary course". The Applicant also stated that in respect of plant retirements it has followed the accounting procedures prescribed by the Board's Gas Pipe Line Uniform Accounting Regulations and intended to continue to do so.

In the Board's view the Applicant's procedures in respect of ordinary plant retirements are appropriate and are in accordance with past Board practice. The Board is not convinced that the procedures need to be changed. The Board notes also that its Gas Pipe Line Uniform Accounting Regulations provide for special treatment for "Extraordinary Retirements".

Overhead During Construction

Westcoast annually allocates a predetermined portion of its administration and general expenses to "Overhead charged to construction"; this accumulated amount is included as part of plant in the calculation of its total rate base.

In cross examination and in argument the Applicant stated that the accumulated amount of "Overhead charged to construction" was distributed pro rata over all plant

accounts and the applicable depreciation rates were applied to the adjusted plant costs to determine the depreciation total for the year.

Several Intervenor's questioned Westcoast's method of determining the annual allocation to be made of administrative and general expenses but did not voice serious objections to the procedures. However, the Intervenor's disagreed with the Applicant's method of allocating the accumulated overhead to plant.

Intervenor's proposed that "Overhead charged to construction" should be allocated to specific projects and that overhead on projects not completed in the current year should be carried forward until completed and included in rate base at that time.

Westcoast, in final argument, admitted that its accounting for overhead could be more precise but rejected the Intervenor's suggested method, stating that adoption of the proposal would result in new problems, including increased costs of operations. Furthermore the Applicant stated that there was no suggestion that the assignment of costs to the different sections of the system resulting from the present method was unfair.

The Board is satisfied with the Applicant's method used to determine the amount of administrative and general expenses transferred to "Overhead charged to construction".

It is also satisfied that the method used to allocate the accumulated overhead to the various sections of the Westcoast system is equitable and concludes that the procedures for distributing "Overhead charged to construction" are appropriate.

Allowance for Funds Used During Construction

Westcoast annually determines a rate for "Allowance for Funds Used During Construction" ("AFUDC" or "IDC"). In arriving at the annual rate, the Applicant takes into account the cost of current bank borrowings, cost of long term debt that may be applied to finance construction and cost of equity funds. The Company states that although it cannot trace funds, for AFUDC purposes, it assumes that new debt, if any, is used to finance capital construction before the new debt is used for other purposes.

The amount of AFUDC for each month is determined by applying one-twelfth of the annual rate to the total monthly amount of the capital projects under construction excluding therefrom overhead during construction and AFUDC. The accumulated AFUDC amount is included as part of plant in calculating the Applicant's total rate base.

It was indicated also that AFUDC is treated by Westcoast in a manner similar to overhead during construction in that it is distributed pro rata over all plant accounts and, to determine the depreciation total for the year, the

applicable depreciation rates are applied to the adjusted plant costs.

During the hearing BCPC questioned "the Applicant's method of determining the AFUDC rate and in argument urged the Board "to direct Westcoast to calculate its IDC rate for rate base purposes by first exhausting its lowest cost source of funds before using more costly sources".

The Board is satisfied with the Applicant's method of determining the AFUDC. It also finds appropriate the allocation procedures for allocating accumulated AFUDC to plant accounts. The Board concludes however, that, effective from the date new tolls come into effect the Applicant's annual rate for AFUDC shall be equivalent to the annual Rate of Return after Taxes on Rate Base of 10.88 percent as shown on page 4-12.

GAS PLANT HELD FOR FUTURE USE

Westcoast's average "Gas Plant Held for Future Use" for the test year was \$5,104,070. Of this amount, \$3,059,695 represents materials for expected mainline loop construction, while the balance of \$2,044,375 was indicated to represent material for gathering system construction. In evidence, Westcoast indicated that major pipe purchases for future use were made in 1973. Some of this material was not utilized as originally planned due to changing market conditions for natural gas and has remained in this account. In more recent years additional purchases were added to this account. During the hearing the Applicant indicated that some of the items included in the account

might not be utilized until the mid or late 1980's.

The Board considers that the total amount in this account is unduly high. Moreover, it is concerned about the length of time which may elapse before utilization of the material in the account. Accordingly, while the Board is prepared to allow the total amount of Gas Plant Held for Future Use applied for by Westcoast to be included in the rate base, it directs that, commencing from the date the new tolls come into effect, the amount remaining in the account from the items that made up the account balance at 30 June 1979 be amortized to cost of service over a period of five years. When items of Gas Plant Held for Future Use that are being amortized are used, they shall be transferred from the account at net amortized value. New items which the Applicant proposes to include in this account and acquired subsequent to 30 June 1979 will continue to be reviewed by the Board against the requirements of Section 102(1) of the NEB Gas Pipe Line Uniform Accounting Regulations.

PRELIMINARY SURVEYS AND INVESTIGATIONS

Included in the Applicant's rate base for the test year are "Preliminary Surveys and Investigations" costs which consist of the following:

Environmental Studies	\$ 206,682
Northern Pipeline Projects	
"Maple Leaf"	<u>3,127,393</u>
	<u>\$3,334,075</u>

These are classified as deferred charges and Westcoast proposes the following treatment for them:

Environmental Studies -
to be cleared to gas plant under construction when
the mainline looping program is initiated;

Northern Pipeline Projects "Maple Leaf" -
to be amortized over 60 months commencing in July
1979.

Environmental Studies

The evidence presented indicated that this item covers environmental studies performed in conjunction with Westcoast's mainline looping application, and that these studies were prudent, proper and useful. The Board accordingly accepts them for inclusion in rate base.

Northern Pipeline Projects - "Maple Leaf"

These costs relate to the Maple Leaf Project, a certificate for which was denied in the Northern Pipeline Hearing. More recently the Board's Reasons for Decision in Phase I of the Foothills (Yukon) tariff and financing hearing indicated that the expenditures were useful to Foothills (Yukon) and were authorized for inclusion in the rate base of that company. Consequently the Board denies Westcoast's application to have these included in its own rate base.

YOYO PIPELINE ABANDONMENT

The original Yoyo pipeline was built in 1968. The line was never placed in service because of metallurgical defects in the longitudinal seam of the pipe (welded by the electric resistance weld process). After numerous breaks during hydrostatic testing, the line was abandoned and a second line was built using what was recoverable from the abandoned line.

In an out-of-court settlement with the manufacturer, Westcoast was able to recover some two-thirds of the total cost of the construction of the line, the interest during construction and the legal fees for the court procedures.

By letter dated 16 December 1971, the Board approved Westcoast's method of accounting with respect to the abandoned Yoyo gathering line as set forth in Westcoast's letter of 13 October 1971, with the instruction that the unrecovered costs of the abandoned line of \$3,817,515 be debited to NEB Account 179, Other Deferred Debits. The Board also indicated at the time that this amount should be amortized over ten years commencing with the effective date of settlement of the legal action. (i.e. sometime in 1971).

The unrecovered amount at 31 December 1978 is \$763,502 and will be \$445,372 at 1 November 1979. Recognizing that the amount is small, the Board's decision is to exclude it from rate base and to require Westcoast to amortize in the cost of service toll the outstanding amount over twelve months from the date new tolls become effective. The accounting treatment should conform to this decision.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Westcoast deducted an item for "Contributions in Aid of Construction" in the calculation of its total rate base. The item is not assigned to any particular class of asset cost so that it is not reflected in the determination of the annual

depreciation amount. It will, however, be taken into account when the total recovery through depreciation of asset costs is reconciled with the amount of accumulated depreciation and Contributions in Aid of Construction received. The Applicant conceded that the procedure provides slightly more depreciation each year compared with applying the depreciation rate to the net balance but stated that the total depreciation over the life of the asset would be the same. Westcoast submitted that it had recorded amounts received as Contributions in Aid of Construction separately as this seems to be industry practice and has been a practice followed by the Applicant from the beginning.

Some Intervenors suggested that Contributions in Aid of Construction be assigned to specific plant assets and that annual depreciation provision be made on a net plant cost basis.

Current accounting practice requires that government assistance towards acquisition of new assets be either deducted from the cost of the related asset, or deferred and amortized on the same basis as the related asset. However, it is noted that in the above instance the contributions are for alteration or replacement of existing assets at the request of particular government agencies and that the total amount is small.

The Board accepts Westcoast's present practice.

WORKING CAPITAL

Cash Working Capital

Westcoast applied for an allowance for "Cash Working Capital" calculated under the "45-day method" (i.e. 1/8 of total estimated annual Operating and Maintenance Expenses excluding transportation charges and fuel gas) for inclusion in rate base.

Some Intervenors disagreed with the "45-day method" on the grounds that a lead/lag study would provide a more accurate estimate of the investment in Cash Working Capital. In response to a Board request, Westcoast submitted a lead/lag study which showed a net expense lag of 29.7 days. The BCPC accepted Westcoast's calculation of expense lag days but proposed an adjustment for "revenue lead" days due to the earlier receipt of revenues from British Columbia distributors compared with payments to BCPC, thereby reducing Westcoast's expense lag days on a weighted average basis to zero, thus producing a nil Cash Working Capital requirement.

Considering first the lag, the Board is of the view that if one allows for a minimum cash balance of 15 days and a lag of 29.7 days, this result is close to the 45 days sought in Westcoast's application.

On the other hand, the five day lead time between the receipt of revenue from domestic sales to the payment to the BCPC cannot be ignored since this represents relatively large

sums of money which Westcoast could invest for this period. The Board was not, however, fully satisfied with the quality of the evidence submitted on this subject. The Board finds that the basis of the current Westcoast method of calculating Cash Working Capital needs modification. As a matter of judgement the Board finds that the appropriate level of Cash Working Capital is equivalent to about 30 days of Operating and Maintenance Expenses. Westcoast is instructed to calculate its monthly cash working capital requirement commencing with the month new tolls come into effect by including in rate base the actual operating and Maintenance Expenses incurred for the month excluding transportation charges by others and the cost of gas. This is approximately equivalent to 1/12th of annual operating and maintenance costs.

The Applicant will be required to submit a new lead/lag study at the time of filing of its operating and maintenance budget for the period 1 July 1980 to 30 June 1981 or when a new application for tolls is filed, whichever comes first.

Materials and Supplies

The Materials and Supplies, based on the information provided by Westcoast, was \$5,059,007 at 31 December 1978. This amount is approved for inclusion in the Rate Base as at that date.

Westcoast's monthly Materials and Supplies computer listings, covering a period of two years, are to be kept available for review by the Board.

Line Pack Gas

Westcoast applied to include in working capital an allowance for "Line Pack Gas" of \$4,389,625 in the test year. The allowance was based on the expected line pack volume valued at the average unit cost of gas in the test year. The BCPC argued that the Applicant should not be granted an allowance for line pack. Its position was that the Applicant should not be entitled to recover costs paid when in law it was not required to incur these costs. The Canadian Petroleum Association ("CPA") proposed an allowance determined on a LIFO (Last In, First Out) basis.

The Board recognizes that the Applicant had an investment in line pack at the inception of the BCPC Agreement and has purchased line pack to meet its contractual obligations under clause 9 of that Agreement. It also notes that there is an allowance for working capital in the agreement and that no transportation agreement exists between the Applicant and the BCPC for the carriage of gas.

Having considered the evidence and argument, the Board accepts the inclusion in working capital of an allowance for Line Pack Gas. The current method used by Westcoast is also acceptable to the Board. The Applicant should continue

the practice of crediting or debiting cost of service with any gains or losses in the value of Line Pack Gas caused by the monthly revaluation process.

Prepaid Expenses

Westcoast has applied to have certain "Prepaid Expenses" included in its test year rate base consisting of the following:

(1) Insurance	\$1,207,290
(2) Property Taxes	1,579,167
(3) Rate Case Expenses	605,618
(4) Other	<u>690,576</u>
	<u>\$4,082,651</u>

With the exception of rate case expenses the actual amounts of Prepaid Expenses may be included in rate base when incurred and amortized over the period to which they apply. The amount in the rate base will be the amount incurred less the accumulated amount recovered through amortization. Actual rate case expenses are to be excluded from rate base and are to be amortized over the 12-month period following their incurrence. The exclusion of rate case expenses from rate base is to provide Westcoast with an incentive to keep them within reasonable limits.

Any significant change in the levels of Prepaid Expenses should be reported to the Board.

DEFERRED INCOME TAXES

The Phase I Decision at page 2-30 stated that:

It would appear, therefore, that these funds (equivalent to the deferred tax liability) should be deducted from the rate base in order to identify the amount of capital provided by debt investors and equity shareholders.

Deferred income taxes are derived by deducting from normalized income taxes the "taxes payable".

The Board has made significant changes to Westcoast's method of calculating normalized income taxes as outlined in Chapter 4 and Appendix VI. Westcoast is to use the Board's method of calculating normalized income taxes for the purpose of arriving at Deferred Income Taxes to be deducted from rate base.

The taxes payable by Westcoast on a flow through basis should be in conformity with the way Westcoast files its annual income tax return with the taxation authorities. The Board understands that there is no significant taxable income applicable to the non-utility operations of Westcoast and, therefore, the total taxes payable should be applied to utility operations in arriving at Deferred Income Taxes as a deduction from rate base.

Therefore, the Deferred Income Taxes to be deducted from rate base should be calculated as above subject to the modification outlined below.

During the hearing, the Applicant stated that it would receive revenues on account of normalized income taxes in the latter part of the second month after the inclusion of normalized income taxes in its tolls. The Company therefore submitted that a two month lag should be provided before deduction from the monthly rate base is made for Deferred Income Taxes. Since income taxes do not have to be paid to the government until the end of each month, the Board finds that a one month lag between payment of taxes and collection of taxes is appropriate in calculating the tolls.

CHAPTER 4

RATE OF RETURN

The Applicant submitted the following average consolidated capitalization for the test year ending 30 June, 1980.

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Cost Component</u>
	(\$000)	%	%	%
Long Term Debt	474,088	55.38	8.63	4.78
Preferred Shares	40,000	4.67	8.77	0.41
Common Equity	<u>342,011</u>	<u>39.95</u>	14.75	<u>5.89</u>
	<u>856,099</u>	<u>100.00</u>		<u>11.08</u>

COST OF DEBT

The Applicant calculated its embedded cost of long-term debt, excluding foreign exchange, to be 8.63 percent as at mid-year 1979-80.

Westcoast requested that foreign exchange gains or losses be included in cost of service. The Board authorizes the inclusion of the actual foreign exchange gains or losses in the monthly cost of service.

In respect of the cost of debt and preferred shares, one Intervenor, in view of Westcoast's projected 200 million dollars of debt-financed plant expansion over the years 1979 and 1980, suggested that the Applicant could meet these anticipated capital requirements by \$165 million from external sources, consisting of \$125 million of debt at 10 percent and \$40 million of preferred shares at 8 percent, with the remaining \$35 million attributed to internal sources. Considering that interest

expenses are deductible for income tax purposes, the Board believes that the Applicant's proposed method for calculating the cost of debt is more reasonable.

An Intervenor, claiming that the cost of debt calculated by the Applicant was overstated because current maturities were not included in the Applicant's calculation, furnished 8.61 percent as the cost of debt without supporting details and asked the Applicant to accept the rate subject to check. The Applicant maintained that, if anything, the cost of debt calculation was understated because the new debt issues were more likely to cost 11 per cent rather than the 10.5 percent which was used in calculating the 8.63 percent. However, the Applicant did not revise its initial estimate.

After due consideration of the various arguments, the Board finds the Applicant's estimate of 8.63 percent to be acceptable.

COST OF PREFERRED SHARES

The Applicant submitted 8.77 percent as its cost of preferred share capital. Although some minor points of disagreement were made by Intervenor the Board feels that such points were not sufficiently supported. The Board therefore approves the Applicant's estimate.

RATE OF RETURN ON COMMON EQUITY

The Applicant requested a rate of return of 14.75 percent on a common equity component of 39.95 percent. This was on the assumption that gains or losses on foreign exchange would be included directly in the cost of service.

Risk

In support of the requested rate of return, the Applicant's witnesses made assessments of Westcoast's risks and applied various approaches in measuring the cost of capital including comparable earnings, financial integrity and capital attraction tests.

In making their assessments of the risks faced by Westcoast, the Applicant's witnesses addressed the Company's regulatory environment, giving special attention to the BCPC Agreement, supply and market conditions and physical operating characteristics, and made various comparisons of Westcoast, Alberta Gas Trunk Line and TransCanada PipeLines.

Company witnesses maintained that the BCPC Agreement, while possessing favourable attributes, could be terminated at any time. Some Intervenor witnesses suggested that if the BCPC Agreement were to be revoked a similar substitute mechanism would likely be devised. Evidence indicated that as long as the BCPC Agreement is in force the possibility of earnings variability or attrition is substantially minimized. As to the relative permanency of the BCPC Agreement, the Board is unable to judge, with any degree of certainty, the probability of the Agreement terminating. However, based on the evidence, the Board finds no conclusive reasons to suggest that the BCPC Agreement would be terminated in the immediate future. The Board's Decision is therefore based on the assumption that the BCPC agreement will continue. Should a significant change

occur, the Board, as indicated on page 2-19, would wish to review its decisions in these proceedings.

The Applicant's witnesses testified that Westcoast's supply risks were greater than those faced by Alberta Gas Trunk Line and TransCanada PipeLines. The Applicant presented evidence indicating that the supply base of Westcoast is not as diverse or as extensive as that of TransCanada PipeLines or Alberta Gas Trunk Line. However, the Applicant also stated that recent increases in its share price were partly attributable to improvements in British Columbia's gas supply. In regard to market risks, a witness for the Applicant pointed to the fact that 60 percent of Westcoast's sales are exported to the United States as compared to 25 percent in the case of TransCanada PipeLines, but conceded that a low probability was attached to the possibility of Government-directed export curtailments. Evidence indicated that a slight decrease in export demand would occur over the next couple of years but thereafter export demand would increase. Total demand was not projected to decrease and evidence was presented which forecasted a sustained gradual increase in total demand over the next decade along with a continuing moderate supply surplus. Intervenor witnesses contended that Westcoast's proposed and existing looping applications showed that the Applicant supported those forecasts. The Board is of the opinion that Westcoast's supply situation is improving and that the Company does not face any significant demand risks.

Turning to physical operating risks, the Board notes that in comparison to TransCanada PipeLines, which is extensively looped, Westcoast's transmission system, until expanded by any future looping, is essentially a "one line" system. Furthermore, Westcoast's system, unlike those of TransCanada and Alberta Gas Trunk Line, traverses rugged mountain and northern terrains with attendant harsh environmental conditions. Intervenor witnesses testified that since Westcoast carries business interruption insurance, the premiums of which are recovered in the cost of service, the physical operating risks should be given lesser consideration than would be the case in the absence of such insurance. Further, it was contended that the cost of service under the BCPC Agreement provided additional earnings protection in the event of operational interruptions, with the result that the BCPC and its customers were burdened with the costs as well as a portion of the risk of operational interruptions.

Having considered all of the evidence presented concerning risks, the Board concludes that the overall business risks facing Westcoast are less than those faced by the average high grade Canadian industrial and believes that the existence of the BCPC Agreement provides current earnings protection which tends to balance Westcoast's other business risks. On balance the Board finds that the overall risk is not significantly different than that of TransCanada PipeLines or Alberta Gas Trunk Line.

Comparable Earnings Test

There was some agreement by Applicant's and Intervenor's witnesses that the prospective rate of return on common equity of high and medium investment grade Canadian industrials was generally in the area of 14 to 15 percent.

Applicant's witnesses recommended rates of return in the 14.5 to 15 percent area. Intervenor witnesses recommended a downward adjustment from the 14 to 15 percent conservative industrial range to 12.5 to 13.5 percent on the basis of the positive influence of the BCPC Agreement on Westcoast's overall business risks. Some Intervenor's based their rates on an assumed reduction in the common equity component of capital structure.

Discounted-Cash-Flow Approach

The basic discounted-cash-flow ("DCF") derived cost of common equity capital for Westcoast was estimated by most witnesses to be in the area of 12.4 to 12.9 percent. This is based on stock market values rather than book values and is applied to the corporation as a whole and not just to the part of the business regulated by the NEB. A witness for the Applicant testified that adjustments for issuance costs, market pressure and price fluctuations would move the basic DCF cost upwards to around 13.1 to 13.6 percent and that this translated into a 14.7 to 15.2 percent required rate of return on booked common equity. Generally, Intervenor's witnesses suggested that adjusted DCF cost rates in the area of 12.5 to 13.5 percent would be adequate for Westcoast.

The Board considers that, as a measurement of the cost of common equity capital, the adjusted DCF rate has some merits and should be given some consideration, notwithstanding the difficulty in estimating future growth rates, the susceptibility of stock prices to erratic movements based on factors that may be unrelated to a particular stock's anticipated performance, and the difficulty of segregating the regulated business from that of the corporate entity as a whole. The Board believes that the DCF method can provide a check on the appropriateness of applying other approaches to measuring cost of capital such as the comparable earnings test.

Beta Value Approach*

One Intervenor's witness contended that 11.5 percent was a reasonable estimate of the cost of Westcoast's common equity capital based on a beta value approach involving a comparison between Westcoast and Bell Canada. While there may be some worth in using beta values when applied to well-diversified portfolios and over reasonable time frames, the Board regards with considerable scepticism the quality of the beta value estimates of individual stocks based on limited statistical data which could well contain elements of uncertain bias.

* The "Beta Value Approach" refers to the application of Portfolio Theory or Capital Market Theory in determining the non-diversifiable risk and return relationship of securities.

CAPITAL STRUCTURE

The Applicant and several Intervenors stated that Westcoast's applied-for capital structure included a relatively high proportion of common equity. The Applicant indicated that this existing situation was due to factors substantially beyond management control and, in particular, referred to small capital additions in recent years coupled with conversion of convertible securities. The Applicant submitted that the applied for capital structure, which excludes debt raised by subsidiaries, treats its investments in its subsidiaries as having been financed by Westcoast's own debt, common equity and preferred shares in the same proportions as its utility operation. The major non-regulated investment is in the equity of Westcoast Petroleum, an oil and gas company. One Intervenor claimed that this proposition is inappropriate because some of the non-utility or speculative investments of the Applicant, such as Westcoast Petroleum and Foothills (Yukon), would normally require a higher equity ratio than a standard utility operation.

Two Intervenors recommended using a 30 percent common equity component, and one recommended a capital structure consisting of 60 percent debt, 10 percent preferred shares and 30 percent common equity.

The Board considers the common equity component of the Company's applied-for capital structure for its pipeline business regulated by the NEB to be somewhat thick in relation to the risks facing the Company's utility operations.

The Board is aware of the Company's need to maintain a favourable credit standing and recognizes that efficient processes of obtaining external capital occur, of necessity, in large issues making the precise attainment of desirable capital structure ratios difficult; nevertheless the Board is concerned that the applied-for capital structure may not be entirely appropriate for Westcoast's pipeline operations regulated by the NEB because Westcoast's corporate holdings include a significant proportion of non-regulated activities where capital structures other than the average for the corporation as a whole would be applicable. For example the Board does not necessarily accept that the appropriate capital structure applicable to the assets of Westcoast's pipeline business is the same as that for its investment in the common equity of Westcoast Petroleum.

The Board is of the view that the Applicant's financial risk, which is related to its capital structure, is low considering the high common equity component of the Applicant's capital structure.

Having carefully weighed all of the evidence, the Board concludes that a 14.25 percent rate of return on common equity, in relation to the applied for capital structure, is fair and reasonable for the test period.

NORMALIZED INCOME TAXES

Normalized income taxes are directly related to the allowed return on equity. It is proposed to determine the rate of normalized taxes applicable to the net income after tax of Westcoast's pipeline business and then incorporate normalized taxes as a component of the Return before Taxes on Rate Base.

Permanent Differences

Excluding for the moment timing differences between accounting income and taxable income (mainly the effect of depreciation versus capital cost allowances), the effective tax rate is affected by permanent differences between accounting income and taxable income.

The approved permanent differences and the Board's reasons in respect of those differences are set forth in Appendix VI to these Reasons for Decision.

Sharing of "Tax Benefits"

Also to be taken into account is the fact that by assuming the same capital structure for Westcoast's pipeline business, subject to NEB jurisdiction, as that for the corporation as a whole, some of the debt of Westcoast is assumed to be used to finance the investment in equity in non-jurisdictional activities, e.g., Westcoast Petroleum. However, as Westcoast's witnesses indicated, all of the interest incurred by the corporation is applied against its taxable income and since dividends from equity investments in other corporations do not attract income tax, the total interest and other expenses incurred can, in effect, be applied against the utility income.

The result of this situation would appear to be that the effective tax rate for the corporation as a whole is lower than it would be if Westcoast's pipeline activities, subject to the Board's jurisdiction, were contained in a corporation solely for that purpose. In other words, there appears to be a

net "tax benefit" from combining different activities in the same corporation. In order to provide appropriate incentives to Westcoast, it appears to the Board that these benefits should be shared equally by the regulated business and by the company's stockholders. The Board's calculation of such net benefits are contained in Appendix VI to these Reasons for Decision.

Cross-Over Adjustment

The Applicant applied for a cross-over adjustment in its normalized income tax calculation in line with its proposed allocation scheme which divided the system into 13 sections. Westcoast proposed that each of the sections be dealt with as though it were a separate tax entity. This proposed scheme resulted in some sections reaching cross-over before other sections and the Applicant accordingly included a cross-over adjustment in its proposed normalized income tax calculation. The Board believes that Westcoast's pipeline business should be regarded as single entity for tax purposes and therefore it does not accept the Applicant's proposed scheme. It therefore disallows the proposed cross-over adjustment.

On the basis of the above finding, the Board has determined that normalized income taxes applicable to Westcoast's pipeline operations are approximately 49.83 percent of net profit after interest expense and permanent differences. This is equivalent to 99.32 percent of net profit after tax.

RATE OF RETURN BEFORE TAXES ON RATE BASE

Based on the applied-for capital structure and the Board's findings on the cost of debt, preferred shares and common equity and the appropriate rate for applying normalized income taxes, the Board finds that the allowable Rate of Return before Taxes on Rate Base is 16.94 percent. One-twelfth of this amount, namely 1.4117 percent is the rate to be applied to the allowable rate base (net of Deferred Income Taxes) each month in order to determine the dollar value of the Return before Taxes on Rate Base to be included in the allowable cost of service.

The derivation of the allowable Rate of Return before Taxes on Rate Base is as follows:

	<u>Amount</u>	<u>Ratio</u>	<u>Cost</u>	<u>Cost Component</u>
	\$000	%	%	%
Long Term Debt	474,088	55.38	8.63	4.78
Preferred Shares	40,000	4.67	8.77	.41
Common Equity	<u>342,011</u>	<u>39.95</u>	14.25	<u>5.69</u>
	856,099	100.00		
Rate of Return after Taxes on Rate Base				10.88
Normalized Income Taxes (99.32% of the cost of preferred shares & common equity)				<u>6.06</u>
Rate of Return before Taxes on Rate Base				<u>16.94</u>

The Board recognizes that the capital structure of a corporation is a matter for the Board of Directors of that corporation. Moreover, the Board recognizes that capital structures cannot be changed quickly and easily unless a corporation is expanding rapidly. Furthermore, for a pipeline company which is not expanding, there is a tendency for the rate base to decline as it becomes depreciated, thus requiring fewer dollars for the cost of equity in the allowable return on rate base. In these circumstances the actual dollar value of equity tends to increase through retained earnings, unless steps are taken to reduce the equity capital of the corporation. The Board has the obligation to ensure that tolls are just and reasonable to customers and must also recognize the interests of the pipeline company and its investors. Cognizance must therefore be given to the situation where the percentage of common equity in the capital structure applied to the rate base of the pipeline may be higher than that warranted by the business and financial risks of the pipeline operations. To grant a normal return on equity in such circumstances would result in a toll higher than necessary, thereby penalizing shippers on the pipeline or those who bear the burden of a higher than necessary toll.

The Board regards Westcoast's applied-for capital structure containing 39.95 percent of common equity as being at the upper limit of what is reasonable for its pipeline operations. For this reason, the Board has set forth its

findings in terms of a Rate of Return before Taxes on Rate Base so as to provide an incentive for Westcoast to obtain a higher rate of return on a smaller common equity component of its capital structure applicable to the jurisdictional pipeline operations.

CHAPTER 5

COST OF SERVICE

Most of the evidence in the hearing was directed towards traditional rate regulation and the establishment of a dollar value for the cost of service for the test year beginning 1 July 1979. As a result of the Board's decision to authorize a monthly cost of service form of toll, there must be a corresponding emphasis in these Reasons for Decision. In conformity with the "Method for Regulating the Tolls of Westcoast", these Reasons for Decision will determine the authorized budget for salaries, wages and benefits included in Operating and Maintenance Expenses and that for other Operating and Maintenance Expenses for the year beginning 1 July 1979, the items which may or may not be included in the cost of service and the methods or criteria for determining the dollar value to be included.

OPERATING AND MAINTENANCE EXPENSES

Westcoast's cost of service includes the item "Operating and Maintenance Expenses" in the amount of \$33.7 million. These expenses consist of: salaries, wages and benefits of \$17.7 million; and materials and supplies, other operating expenses relating to the gathering, processing and transmission of gas and administrative expenses totaling \$16.0 million. The cost of gas sold and used in operations is excluded.

Salaries, Wages and Benefits

The Applicant in its estimate of wages and salaries provided for an increase in 1979 of 12 percent for wages and 15.3 percent for salaries.* The increase in wages was based upon anticipated union demands, while the increase in salaries reflected a 7.5 percent general economic adjustment and a 7.8 percent competitive adjustment. Westcoast maintained that a competitive adjustment is necessary because it had been prevented from implementing a recommended salary increase in 1975 due to the introduction of Anti-Inflation Board ("AIB") controls. Furthermore, Westcoast stated that because it had interpreted too strictly what was permissible under the AIB controls, it had not granted increases under its merit program. For 1980, the Applicant provided for an escalation of 8 percent for both wages and salaries. Westcoast testified that it expected an increase in the cost of living of less than 8 percent in 1980, but that its 8 percent adjustment also included raises for promotions, long service and other factors.

The Applicant projected an increase in benefits from 13.6 percent of gross payroll in the base year to 15.0 percent for subsequent periods. This increase was mainly attributable to the introduction of a dental plan.

The Applicant also projected a total complement of 786 employees by 30 June 1980 of which 720 are classified as permanent staff and 66 as temporary; this represents an increase of 148 employees over staff at 31 December 1978.

Westcoast maintained that the increase in staff is required because of the additions that will be made to the gathering system during this period (Grizzly Valley and Junior-Sierra pipelines) and because of the modifications that will be made to the existing plants at Fort Nelson and Fort St. John (McMahon Plant). The Applicant also stated that additional office personnel at Vancouver and Calgary will be needed in some of the administrative functions while the Foothills (Alaska Highway Pipeline) project is also expected to require some new staff (18 approximately). The Westcoast witnesses stated that the costs associated with the Foothills project are excluded from the utility cost of service.

The Applicant explained that the planned staff increases will result in higher compression and gathering operating costs but stated that this increase is in line with the 17 percent increase in throughput forecast for the system.

It is the Board's view that the 7.5 percent general economic adjustment for 1979 for salaries is reasonable and that the dental plan constitutes an acceptable addition to Westcoast's current benefit program. The Board also accepts the increased costs resulting from the additional personnel requirements.

With regard to wages, the Board is of the opinion that Westcoast did not provide adequate evidence to justify its allowance for a 12 percent increase for 1979. The Board concludes that for cost of service purposes this increase in wages should be limited to the general economic adjustment for 1979 of 7.5 percent.

With respect to the projected salary increases for 1979, the Applicant provided a salary survey in support of its allowance for a 7.8 percent competitive adjustment factor over and above the proposed economic adjustment. However, it is the Board's view that Westcoast did not provide an adequate explanation as to why the maximum of its salary grades should be set equal to the 100th percentile of the adjusted survey range. Upon examining the supporting data, the Board believes that a three percent competitive adjustment for 1979 should be sufficient to enable Westcoast to remove any major inequality currently present in its salary structure. The Board therefore concludes that for the cost of service the appropriate total increase in salaries for 1979 is 10.5 percent.

For 1980, it is the Board's view that Westcoast did not provide adequate evidence to justify its allowance for an eight percent increase in wages and salaries. The Board concludes that for purposes of determining the cost of service a seven percent rate increase is appropriate.

The Board concludes that the budget for salaries, wages and benefits in Operating and Maintenance Expenses for the year beginning 1 July 1979 as proposed by the Company of \$ 17.7 million should be reduced by \$0.9 million to \$16.8 million. Westcoast may include in its monthly cost of service the actual payments for salaries, wages and benefits up to the approved annual budget. Any amount in excess of this annual total should be deferred for disposition as described under the Method for Regulating the Tolls of Westcoast.

Other Operating and Maintenance Expenses

Administrative and General Expenses

The Board notes that Westcoast evidence presented at the hearing indicated that not all expenses incurred by the Administrative, Engineering, Communication, etc. departments are for utility cost of service; some are charged or allocated to non-utility subsidiaries including Westcoast Petroleum Ltd., the Alaska Highway Project, and construction overhead (see Chapter 3 - Overhead During Construction). Charges transferred to non-utility subsidiaries consist primarily of rent, wages, executive and staff salaries, benefits and fees for various administrative services. Administrative fees are determined from an annual review based mainly on time estimates and are charged monthly to the subsidiaries.

In reply to questions during the hearing Westcoast stated that salaries, expenses and other direct costs that are incurred by non-utility activities are charged directly on a time spent basis and as invoices are allocated, etc. Fringe benefits are calculated at 15 percent of salary costs while general overhead is recovered by means of a 50 percent surcharge on salaries.

The Board is satisfied with the Applicant's procedures for determining the amount of administrative and general expenses transferred to the non-utility subsidiaries and to the Alaska Highway Project.

Office Rent Expense

The Applicant proposed continuing its existing method of calculating rent expense related to its pipeline operation. The evidence presented during the hearing indicated that the rent expense forecast for the test year on the basis of the existing arrangement falls within the range of current market rates.

Westcoast's head office building is owned by VanCal, a wholly owned subsidiary of the Applicant. Under the lease arrangements between Westcoast and VanCal, the whole of the building is rented to Westcoast, which in turn sublets the space it does not use. The rent charged in any month by Westcoast in its cost of service is equal to the rent payable to VanCal for the whole building less the rent received by Westcoast from its sub-tenants. The effect of this arrangement is that the Applicant bears the risk of any unoccupied areas in the head office building.

Several Intervenors objected to this arrangement because it could potentially shift some costs attributable to Westcoast's non-jurisdictional investment in VanCal to the Company's utility customers. To eliminate this potential risk the Board directs that Westcoast adjust its existing methods of calculating the rent expense to be included in the monthly cost of service according to the following rules:

- (1) where the building is fully occupied, the rent actually charged to Westcoast - i.e. net of rent collected from sub-tenants - should be included in the cost of service.
- (2) where there is vacant space, the cost of service should include an amount of rent equal to that actually charged to Westcoast by VanCal for the whole building, less
 - (a) rent collected from the sub-tenants by Westcoast, and
 - (b) rent applicable to the vacant space, which shall be calculated on the ratio of the vacant space to the total space available for occupancy multiplied by the rent paid by Westcoast to VanCal.

The Board will require that Westcoast file with the Board a copy of its lease arrangement with VanCal and keep the Board informed of any change in that arrangement.

Charitable Donations

In past decisions the Board has allowed charitable donations to be included in the cost of service where such donations were found reasonable in amount and not for political purposes. The Board believes that Westcoast's forecast donations are reasonable in amount and purpose and actual donations if consistent with the forecast may therefore be included in the monthly cost of service.

Summary of Operating and Maintenance Expenses
Excluding Salaries, Wages and Benefits

Westcoast's forecast of Operating and Maintenance Expenses other than salaries, wages and benefits in the amount of \$16.0 million is approved as the annual budget for the year beginning 1 July 1979. Westcoast may include in its cost of service the actual costs incurred for these categories of expense up to the approved annual budget. Any amount in excess of this annual total should be deferred for disposition as described under the Method for Regulating the Tolls of Westcoast.

DEPRECIATION

In the May 1978 Phase I Decision, the Board approved depreciation rates to be used when new tolls came into effect, with the exception of depreciation rates for Westcoast's main transmission plant allocated to export sales. The Phase I Decision suggested that Westcoast's main transmission plant might be allocated between the export and domestic business of the Company, and that the portion of transmission plant

allocated to the export business might be recovered through depreciation over the remaining term of Licence No. GL-41.

In the November 1978 Decision on Review of its Phase I Decision, the Board decided that the question of allocation as between the export and domestic business of the Company should be left for further consideration and final decision in the succeeding phases of the hearing.

On the basis of further evidence adduced, the Board has rejected the concept of allocating assets to domestic and export sales for the purpose of determining the depreciation rates for transmission plant. In the Board's view, the capital cost of transmission plant can be recovered in a systematic and appropriate way without allocating transmission plant to domestic and export service, by using straight-line depreciation rates in conjunction with suitable cost allocation methods. (See Chapter 6, Cost Allocation.)

With the expiration of Licence GL-41 on 31 October 1989, it is reasonable to assume that, at that time, there will be a substantial reduction in the pipeline throughput, but continuing growth in the domestic market will gradually use up more and more of the excess capacity. In these circumstances, the Board believes that it would be appropriate to correlate depreciation costs with pipeline utilization over the remaining service life of the asset. If more depreciation is charged currently when Westcoast's pipeline capacity is fully

used, then less depreciation will be required to be charged after the expiration of Licence No. GL-41, when the capacity used is expected to be substantially less.

The Board has approved straight-line depreciation rates for transmission plant based on an estimated service life for each class of transmission plant and on the Applicant's forecast of a high level of pipeline use during the remaining life of Licence No. GL-41, followed by a drop in use and then continued increase as domestic markets grow. Based on all of the evidence adduced the Board finds that the rates of depreciation for Westcoast's main transmission plant to be used when new tolls come into effect should be 3.33 percent for Mains (NEB Account Numbers 461 to 465) and 5.0 percent for Compressors (NEB Account Numbers 466 and 467).

TAXES OTHER THAN INCOME TAXES

Westcoast applied for the inclusion in Cost of Service for the year beginning 1 July 1979 for "Taxes Other Than Income Taxes" made up of the following items:

(1)	Business and Property Taxes	\$15,700,000
(2)	Corporate Capital Tax	950,000
(3)	Coloured Gasoline Tax	<u>5,602,684</u>
		<u>\$22,252,684</u>

Business and Property Taxes - Increases to the pipeline system and higher mill rates and assessment values are reflected in the figure for business and property taxes shown above. These basic increases were not disputed by Intervenor and the Board is satisfied that the estimate is reasonable.

Corporate Capital Tax - Intervenor's objected to the amount of Corporate Capital Tax included in the cost of service by Westcoast because the portion applicable to Westcoast's non-utility subsidiaries is included in the amount; they maintained that the appropriate portion for non-utility subsidiaries should not be charged to the utility customers. The Board agrees with the Intervenor's that only the utility group's portion of the capital tax should be included in cost of service. Accordingly, the utility group portion of this tax allowed in cost of service should be based on the ratio of Westcoast's utility investment in net plant, property, and equipment to the total investment of the company for the same class of assets. For example, on page 23 of the Company's 1978 published annual report filed as Exhibit 412, the consolidated financial statement provides the amount for utility investment under the heading "Westcoast Transmission and Utility Subsidiaries", as well as the total consolidated net investment in plant, property, and equipment.

Westcoast is directed to include in the monthly cost of service the applicable portion of the total actual corporate capital tax using the information described in the preceding paragraph, based on the ratio calculated at the beginning of each calendar year.

Coloured Gasoline Tax is basically a sales tax collected by the British Columbia government on natural gas used in the operations of the company; the amount applied for reflects the forecast increase in pipeline throughput in the test year of approximately 17 percent. The Board accepts this estimate as reasonable.

Because of the nature of the cost of service toll, Westcoast may include actual cost of Taxes Other Than Income Taxes in its cost of service tolls. Monthly amounts for cost of service should be based on one-twelfth of taxes estimated for the year, but the annual total of the monthly amounts should not exceed the actual taxes for the period to which it applies. The foregoing is subject to the requirement that the actual amount of corporate capital tax be reduced to exclude the portion applicable to subsidiaries not subject to NEB jurisdiction.

MISCELLANEOUS OPERATING REVENUES

In arriving at a decision on the disposition of natural gas by-product costs and revenues, the Board has given careful consideration to the evidence presented. The Applicant's methodology for the monthly inclusion of by-product extraction costs in the cost of service is acceptable to the Board. Also, the receipt of revenue from the sale of by-products by the BCPC, without credit to the Applicant's cost of service, in accordance with an agreement between the Applicant and the BCPC, is considered to be appropriate.

The CPA argued that, in accordance with certain Board precedents, a credit for by-product revenues should be included in the cost of service, if corresponding product extraction costs were included. The CPA expressed concern that by-product revenues might be overlooked if a net-back royalty scheme were introduced in British Columbia.

In its decision, the Board recognizes that the disposition of by-product revenues is a contractual matter between the Applicant and the BCPC. As a result of the expiry of the agreement which provided for the receipt of revenues by the Applicant, the BCPC receives by-product revenues directly; nevertheless, the increase in cost of service resulting from the expiry of the by-product revenue credit is borne by the BCPC.

The Board concludes that while the contractual arrangement may appear to be different from other Board decisions, the net effect is the same; there would only be a difference if the corporate entity which received the revenue did not bear the cost. Accordingly the Board finds no need to change the method proposed by Westcoast for determining the credit to its cost of service for Miscellaneous Operating Revenues.

FOREIGN EXCHANGE GAINS OR LOSSES ON DEBT

The Applicant included in cost of service an item entitled "Foreign Exchange on Debt" and proposed that the rate

of return be determined excluding foreign exchange fluctuations.

Intervenors questioned the method used to determine the amount but did not oppose the inclusion of the item in cost of service.

The Board finds it appropriate to include Foreign Exchange Gains or Losses on Debt in cost of service and directs that from the date new tolls come into effect the amount to be deducted from or included in the monthly cost of service total shall be the actual foreign exchange gains or losses experienced for the month.

CHAPTER 6
COST ALLOCATION

SEGMENTATION OF THE SYSTEM

The use of cost of service tolls for Westcoast requires a determination of the cost of service applicable to:

- (a) BCPC,
- (b) Alberta producers,
- (c) Yukon producers, and
- (d) Northwest Territories producers.

Special orders under the PAA applicable to Westcoast for the purchase of out-of-province gas for subsequent export, establish prices for such gas by deducting the applicable portion of Westcoast's cost of service from the export revenue. In allocating Westcoast's cost of service, Westcoast's system

is divided into various sections. Westcoast has segmented its system on the principle of identifying those sections which provide a unique service for a particular source or sources of gas. The result is 13 sections, each of which provides either a gathering, processing or transmission service. In addition, pursuant to the Board's decision in Phase I in which it was suggested that Westcoast's transmission plant be allocated between domestic and export business for depreciation purposes, Westcoast sub-divided each of Sections 1 (Mainline), 2 (Fort Nelson Line) and 7 (Mainline Taylor Line) between domestic and export, resulting in a total of 16 sections.

In view of the Board's decision on depreciation as set out in Chapter 5 of these Reasons, it is not necessary to sub-divide Sections 1, 2 and 7. The Westcoast system will now consist of 13 sections instead of the 16 proposed by the Applicant. A map illustrating the approved segmentation for toll purposes is attached as Appendix VIII.

DISTRIBUTION OF RATE BASE AND COST OF SERVICE

In its application, Westcoast outlined the method by which individual rate base and cost of service items were distributed to the various sections of its system. The approach taken by Westcoast was to assign all major identifiable costs directly to the appropriate sections with minor and indirect costs being prorated or distributed on various bases to the sections.

The Applicant's proposed method for distributing rate base and cost of service items was examined during the course of the hearing. Intervenors did not oppose the basic method, or present any alternatives.

The Board finds the method of distributing rate base and cost of service items proposed by Westcoast acceptable and applicable to the revised segmentation approved by the Board (see previous section) with two exceptions arising from other decisions taken by the Board. The deduction from rate base of

Deferred Income Taxes and the Return before Taxes on Rate Base are to be distributed to the sections on the same basis as the rate base.

ALLOCATION OF COSTS TO OUT-OF-PROVINCE PRODUCERS AND THE
BRITISH COLUMBIA PETROLEUM CORPORATION

The final step in the process of cost allocation is to allocate the cost of service assigned to each section between the Alberta producers, Northwest Territories and Yukon producers, and the BCPC. Westcoast's proposal to allocate costs between the producer groups required that assets first be allocated to domestic and export service in Sections 1, 2 and 7. In view of the Board's decision to reject the allocation of assets to domestic and export service (see Chapter 5, Depreciation), and to reduce the number of sections in the system from 16 to 13, this intermediate step is no longer required.

Westcoast proposed to allocate the fixed costs distributed to Sections 2 and 5 between producer groups on the basis of using MDVO's adjusted for mileage. Fixed costs distributed to other sections would be allocated on the basis of MDVO's. Similarly, variable costs would be allocated on the basis of Mcf's of actual throughput (residue gas volumes) adjusted for mileage in Sections 2 and 5, and on the basis of Mcf's of actual throughput in other sections.

In order to establish MDVO's for cost allocation purposes, Westcoast proposed that a determination of MDVO's be made on 1 August of each year, to be effective at that time. This MDVO determination would change if significant changes in the MDVO's occurred during the year or if additional volumes were delivered by other producers, in which case costs would be allocated using the same volumetric principles.

Westcoast purchases best efforts gas from the Kotaneelee area in the Northwest Territories and from Pan-Alberta in Alberta. Since purchases of best efforts gas are without MDVO contractual obligations, Westcoast proposed to allocate costs to best efforts gas using a somewhat modified volumetric approach. In any month, producers of best efforts gas would be charged an additional amount for each section used based on the average monthly charge applicable to gas produced by other producers using the same section. In the subsequent month the additional amount would be credited to the cost of service of that section.

Under the approved method for regulation, the purchase price for British Columbia gas will be determined in accordance with the BCPC Agreement. Any change in the agreement deemed by the Board to have a significant effect on the purchase price of gas, or any change in the method for determining the price, will cause the Board to review the tolls of Westcoast. The price of gas purchased from the Alberta

producers, and the Northwest Territories and Yukon producers, will be determined pursuant to orders under the PAA. The present orders under the PAA will be amended to conform to the cost allocation decision contained in these Reasons for Decision. In each case, the purchase price of gas is determined by deducting the cost of service allocated to each producer or producer entity from revenues based on fixed prices or rates, for export and domestic sales. In these special circumstances of net-back pricing, cost allocations are used to determine the prices paid for gas by Westcoast to each of the producer groups. Thus, the fairness and reasonableness of any cost allocation method must be assessed primarily in relation to the interests of the producers.

A central issue in the allocation of fixed costs was the selection of an appropriate allocation base. There was general agreement that fixed costs should be allocated to producer groups using some measure of pipeline utilization, but there was little agreement as to which volumetric measure would be the most appropriate. Westcoast proposed an allocation base for fixed costs which incorporated MDVO's as the volumetric measure of pipeline utilization. BCPC submitted that a combination of MDVO's and actual throughput would be a better basis for allocating fixed costs. CPA proposed that the allocation of fixed costs be made on a cents/Mcf basis at a rate fixed by the Board which is determined on forecast throughput.

Westcoast submitted that it is now generally accepted that fixed costs should be allocated on the basis of a capacity measurement. In Westcoast's circumstances, the MDVO's are the only capacity measurement available.

CPA submitted that MDVO's are not the proper basis for cost allocation because Westcoast is not obliged to install facilities related to the MDVO's. MDVO's represent an obligation on the producers to deliver when requested. Also MDVO's are not public and are subject to change.

BCPC opposed the allocation of fixed costs using MDVO's because that method considers deliverability and makes no adjustment for throughput. BCPC also expressed concern over the consequences to cost allocations arising from a breakdown in the central processing plant in British Columbia or a pipeline break during a time when it could take months to repair.

Westcoast opposed the allocation of fixed costs on the basis of volumetric throughput. The Applicant maintained that during normal operations its costs fluctuated substantially from month to month. Although annual throughput for an individual producer would be maintained to meet take or pay obligations, month to month throughput could vary substantially. This would result in severe fluctuations in costs allocated to the various producers on a monthly basis and to some extent disproportionate cost allocations on an annual basis.

In support of using MDVO's for cost allocation, the Applicant submitted that cost allocation on the basis of MDVO's did not yield results markedly different from those produced by cost allocation on a throughput basis. In this regard, the Applicant stated that conditions within the producer contracts really dictated that purchases be made in a fairly narrow range of load factor from all producers.

In the circumstances of Westcoast, the Board finds that MDVO's can be fairly applied in allocating fixed costs to the producer groups. From the evidence, the Board was not convinced that allocation on the basis of throughput, or any variation thereof, would achieve a more equitable allocation of costs or otherwise be more suitable. In considering the merits of MDVO's versus throughput as the basis for fixed cost allocation, the Board noted that significant problems of misallocation could occur using either basis. However, the evidence demonstrated that severe cost misallocations using throughput would more likely occur during planned events in the course of normal operations, while significant cost misallocations using the MDVO allocation base would more likely occur only in very infrequent situations described as disaster scenarios. In addition, the evidence did not demonstrate that the disadvantages inherent in either the MDVO method or the throughput method would necessarily cancel or offset each other if a combination of the two methods were used.

There was some discussion during the hearing on how the accuracy of the MDVO determination used in the monthly cost allocation could be verified by interested parties in the proposed method of regulation. Such MDVO determinations for cost allocation purposes would be subject to audit by the Board. Also, during the hearing, Westcoast stated that it would be prepared to make available to interested parties information on its monthly cost allocation, in a form satisfactory to the Board.

Westcoast proposed a mileage adjustment in allocating the costs of Sections 2 and 5 to the various producers. Westcoast did not propose a mileage adjustment in Section 1 although the distance of haul through that section is quite different for BCPC gas sold in the domestic market than for out-of-province gas which is sold in the export market. BCPC argued that mileage factors should be included in the cost allocation for Section 1 because the entities sharing this section use it to different degrees.

In the Board's view, mileage factors should be included in cost allocations if the costs increase with distance of haul and the distance of haul is significantly different for different users. The Board finds that a mileage adjustment should be made in the cost allocation in Section 1. However, in Section 2 all of the Territories produced gas and all but a very small percentage of BCPC gas is transported through the entire section. In this case a mileage adjustment is unnecessary.

Accordingly, the Board directs that Westcoast allocate fixed costs assigned to Sections 1 and 5 on the basis of MDVO-miles. Fixed costs assigned to the remaining sections are to be allocated on the basis of MDVO's. The Board further directs that Westcoast allocate variable costs on the basis of Mcf-miles of actual throughput in Sections 1 and 5. In the remaining sections variable costs are to be allocated on the basis of Mcf's of actual throughput (residue gas volumes). In respect of cost allocations for best efforts gas the Board finds the Applicant's proposed method to be appropriate.

While costs for compressor fuel and unaccountable losses are not included in Westcoast's cost of service, the volumes used for compressor fuel and unaccountable losses must be allocated in the determination of volumes purchased from each producer and resold. The Board believes that such allocations should be in accordance with the approved allocation methods for variable costs.

In respect of the annual determinations, on 1 August of each year, of the MDVO's used for cost allocation purposes, the Applicant shall prepare a summary of the MDVO determination for each producer or producer group, together with information in sufficient detail to enable interested parties to assess the reasonableness of each determination, or in such detail as the Board may otherwise instruct from time to time. This information shall be made available to interested parties and shall be filed with the Board together with amendments as and when they are made.

In respect of monthly remittances to the various producers or producer groups, Westcoast is required to include therewith a statement showing the calculations of the allocation factors used to allocate the cost of service for that month and the MDVO's, actual throughputs and mileages used in the calculations. The statement should also include a brief explanation of any change in MDVO's from those used in the cost of service allocation for the previous month. This monthly statement shall also be made available to interested parties and filed with the Board.

CHAPTER 7

EFFICIENCY AND PRODUCTIVITY

The Board believes that there is an onus on all pipeline companies regulated by it to demonstrate that they are operating in an efficient manner. There is, however, a special onus in this regard on pipeline companies operating under a cost of service toll, as Westcoast will be. Accordingly, special provision has been made for this factor in the "Method for Regulating the Tolls of Westcoast".

The Board is not satisfied that the evidence adduced in the hearing was adequate to shed insight into the level of efficiency and productivity of Westcoast's operations.

The Board recognizes that the measurement of efficiency and productivity in a pipeline company is a complex matter and suggests that Westcoast take the initiative to evolve criteria for this purpose.

Four specific items arose in the hearing on this matter.

Other Operations Gas Including Unaccountable Losses (Excluding Compressor Fuel)

The cost for gas used by Westcoast does not appear in the cost of service since BCPC and out-of-province producers supply the gas. Nevertheless, Westcoast's efforts to minimize this item is of major concern to the suppliers of gas.

Westcoast projected the volume of "Other Operations Gas" which includes "Unaccounted for Gas" to be 1,221,660 Mcf for the year ended 30 June 1980. The Applicant stated that this was equivalent to 0.29 percent of the projected system purchases for that period. According to the Applicant, its estimate of 0.29 percent for "Other Operations Gas" was the average experienced during the past ten years.

During the 1978 base year Westcoast actually experienced a small net gain in "Other Operations Gas"; however, continuing future recurrence of net gains is highly unlikely. Nevertheless, this was a marked improvement in the Applicant's operating gas balance over prior years. The Board attributes this improved performance in part to diligent operating and maintenance practices by the Applicant and is desirous that Westcoast continue its efforts to keep its losses as low as possible.

Evidence presented by the Intervenors indicated that the amount of "Other Operations Gas" could be zero. This would be the case if the "Other Operations Gas" category represented only gas metering losses and gains. In considering the evidence, the Board finds a factor of 0.17 percent for "Other Operations Gas" appropriate; this represents the average experience of the three years, 1976-1978. To enable the Board to monitor the trend the Applicant is required to provide a quarterly statement

of the actual monthly amounts of "Other Operations Gas" in a format showing separately the items making up the volumes reported.

Gas Plant Held for Future Use

There is an onus on Westcoast to maintain its rate base at the minimum level consistent with maintaining an adequate level of service. In Chapter 3, the Board indicated its concern as to whether the level of inventory of "Gas Plant Held for Future Use" was too high. Westcoast is requested to provide the Board with an analysis of the new items in "Gas Plant Held for Future Use" as at 30 June 1980, including a description of each item, the anticipated use, the date acquired, the cost, and an anticipated utilization date.

Security Pipe

The Board notes that pipe value included in the Materials and Supplies total is \$915,912, as at 31 December 1978, most of it being security pipe. In addition, the Board also notes that evidence indicated that some spare pipe for emergency purposes is also included in gross Gas Plant in Service. The Board agrees that security pipe is needed, but requires Westcoast to submit to the Board for its review the justification of the quantity and size of security pipe held in inventory as at 31 December 1979.

Compressor Fuel

The Board notes that compressor fuel is not a cost to Westcoast as the required gas is supplied either by the out-of-

province producers or the BCPC, and therefore, the item is not included in the Company's cost of service.

On the question of compressor fuel efficiency, the Board has looked into the matter and is satisfied that Westcoast's compressor fuel volumes are within an acceptable operating standard. The Board will expect Westcoast to continue to demonstrate that fuel is being used efficiently.

CHAPTER 8

DISPOSITION

As indicated in Chapter 2 of these Reasons for Decision, the Board will provide for the tolls to be charged by Westcoast by an order under section 50 of the NEB Act. Those tolls will be of the variable cost of service type calculated on the basis of a monthly cost of service determined in accordance with these Reasons for Decision. The Board's method for regulating the cost of service tolls shall be that specified in Schedule A to Order No. TG-5-79, which Order is set out as Appendix VII to these Reasons for Decision. As a result, there will be no variation in the tariffs filed with the Board by Westcoast pursuant to subsection 51(2) of the NEB Act.

With respect to income taxes, Westcoast is to adopt the normalized method of calculating income taxes for accounting purposes and to include in its cost of service an allowance for current normalized income taxes calculated in accordance with these Reasons for Decision. As indicated in the Review Decision resulting from the hearing of Phase I of the Westcoast application, the request to include a provision for the "catch-up" of prior years' deferred income taxes is dismissed.

The rates of depreciation to be used by the Company for accounting purposes and for the purposes of the cost of service tolls, shall be those rates set forth in Appendix III to the Board's Reasons for Decision on Phase I of May, 1978, except in respect of transmission plant. The rates of depreciation applicable to transmission plant shall be:

Mains (NEB accounts 461 to 465) 3.33%

Compressors (NEB accounts 466 and 467) 5.0 %

All other cost of service items are to be included in the monthly cost of service on the basis set forth in these Reasons for Decision and Board Order No. TG-5-79.

The monthly cost of service determined in accordance with these Reasons for Decision shall be allocated to the British Columbia Petroleum Corporation and to the producers in the Province of Alberta and in the Yukon and Northwest Territories on the basis of the maximum day volume obligation and throughput adjusted for mileage as described in these Reasons for Decision and Board Order No. TG-5-79. The cost of service so allocated in each month shall constitute the tolls to be charged by Westcoast in respect of natural gas produced in British Columbia and produced outside that Province respectively.

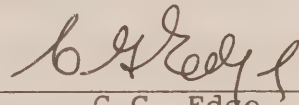
It is the Board's view that tolls determined in the manner described in these Reasons for Decision and regulated in

the manner provided by the Board's method of regulation prescribed in Order No. TG-5-79, will result in tolls being charged by Westcoast which are just and reasonable.

The new form of tolls and the changes in the accounting procedures for Westcoast shall take effect one minute past midnight on 1 November 1979.

* * *

The foregoing chapters, together with Order No. TG-5-79, constitute our Reasons for Decision and our decision on the application by Westcoast Transmission Company Limited under Part IV of the National Energy Board Act.



C.G. Edge
Presiding Member



L.M. Thur
Member



R.F. Brooks
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-2-77

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF applications by Westcoast Transmission Company Limited (hereinafter called "the Applicant") for certain orders respecting rates and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File Nos. 1562-W5-2 and 1562-W5-3.

B E F O R E the Board on Thursday, the 24th day of November, 1977.

UPON reading the application filed on behalf of the Applicant, dated the 15th day of December, 1976, respecting a change in the Applicant's depreciation policy;

AND UPON reading the application filed on behalf of the Applicant, dated the 15th day of September, 1977, firstly, under Part IV of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Applicant may charge and disallowing any existing rates or tolls or portion thereof that may be inconsistent with the just and reasonable rates or tolls so fixed and, secondly, for certain amending orders under Section 53(1) of the Petroleum Administration Act;

IT IS ORDERED THAT:

1. The application dated the 15th day of December, 1976, and that portion of the application dated the 15th day of September, 1977, made under Part IV of the

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National Energy Board Act (hereinafter referred to collectively as "the Applications"), will be heard at a public hearing commencing at 9:30 a.m. local time on the 14th day of February, 1978, at the Hearing Room of the British Columbia Energy Commission, 21st Floor, 1177 West Hastings Street, in the City of Vancouver, in the Province of British Columbia, and to be held at such other place or places as the Board may direct. Such proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided if it appears from the written statements filed in accordance with paragraph 4 hereof that the proceedings will be conducted in both official languages.

2. The Applicant shall, forthwith, serve a true copy of the Applications, if not already served, and a true copy of this Order, upon all the Applicant's customers, the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, the Independent Petroleum Association of Canada, and, as soon as possible and in any event not later than the 23rd day of January, 1978, upon such other persons who have intervened pursuant to paragraph 4 hereof.

RH-2-77

3. Notice of the said hearing in the form prescribed by the Board as set forth in Appendix I attached to and forming part of this Order shall be published on or before the 12th day of December, 1977, in one issue of each of "The Vancouver Sun" and "The Vancouver Province" in the City of Vancouver, "The Colonist" in the City of Victoria, "The Kamloops Sentinel" in the City of Kamloops, all in the Province of British Columbia; "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta; "The Globe and Mail" and "The Financial Post" in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; the "Financial Times of Canada" in the City of Montreal, in the Province of Quebec; and, as soon as may be possible, in the Canada Gazette.

4. Any person intending to oppose or intervene in the said Applications shall, on or before the 17th day of January, 1978, file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Applications, which shall be endorsed with the name and address of the respondent or intervenor

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or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 17th day of January, 1978, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada.

5.(a) A pre-hearing conference, pursuant to section 13 of the National Energy Board Rules of Practice and Procedure, will be held on the 31st day of January, 1978, commencing at 9:30 a.m. local time at the Hearing Room of the British Columbia Energy Commission, 21st Floor, 1177 West Hastings Street, in the City of Vancouver, in the Province of British Columbia, to discuss the proposed practice directives set forth in Appendix II, attached to and which forms part of this Order, and other matters relating to the conduct of the Hearing.

(b) As soon as possible after the pre-hearing conference, the Board shall make an order respecting the rules of practice and procedure which will govern the conduct of the Hearing.

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6. Any interested party may examine a copy of the Application and the submissions filed therewith at the office of:

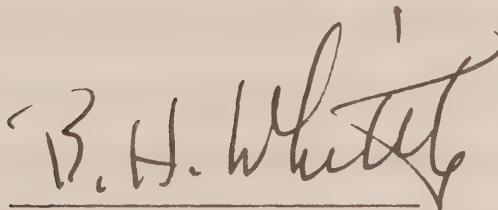
National Energy Board
Trebla Building
473 Albert Street
OTTAWA, Ontario
K1A 0E5

or at the offices of the Applicant at the following address:

Westcoast Transmission Company Limited
1333 West Georgia Street
VANCOUVER, British Columbia
V6E 3K9.

DATED at the City of Ottawa, in the Province of Ontario, this 24th day of November, 1977,

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read 'B. H. Whittle', is written over a horizontal line.

Brian H. Whittle
Secretary

APPENDIX I
TO ORDER NO. RH-2-77

NATIONAL ENERGY BOARD

NOTICE OF HEARING

TAKE NOTICE THAT Westcoast Transmission Company Limited has filed an application dated the 15th day of December, 1976, respecting a change in the Applicant's depreciation policy;

AND TAKE NOTICE THAT Westcoast Transmission Company Limited has filed an application dated the 15th day of September, 1977, firstly, under Part IV of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Applicant may charge and disallowing any existing rates or tolls or portion thereof that may be inconsistent with the just and reasonable rates or tolls so fixed and, secondly, for certain amending orders under Section 53(1) of the Petroleum Administration Act.

THE BOARD HAS ORDERED:

1. That the application dated the 15th day of December, 1976, and that portion of the application dated the 15th day of September, 1977, made under Part IV of the National Energy Board Act (hereinafter referred to collectively as "the Applications"), will be heard at a public hearing commencing at 9:30 a.m. local time on the 14th day of February, 1978, at the Hearing Room of the British Columbia Energy Commission, 21st Floor, 1177 West

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Hastings Street, in the City of Vancouver, in the Province of British Columbia, and to be held at such other place or places as the Board may direct. Such proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided if it appears from the written statements filed in accordance with paragraph 2 hereof that the proceedings will be conducted in both official languages.

2. Any person intending to oppose or intervene in the said Applications shall, on or before the 17th day of January, 1978, file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Applications, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 17th day of January, 1978, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the

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Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, and the Independent Petroleum Association of Canada.

3.(a) A pre-hearing conference, pursuant to section 13 of the National Energy Board Rules of Practice and Procedure, will be held on the 31st day of January, 1978, at the Hearing Room of the British Columbia Energy Commission, 21st Floor, 1177 West Hastings Street, in the City of Vancouver, in the Province of British Columbia, to discuss the proposed practice directives and other matters relating to the conduct of the Hearing.

(b) As soon as possible after the pre-hearing conference, the Board shall make an order respecting the rules of practice and procedure which will govern the conduct of the Hearing.

4. Any interested party may examine a copy of the Applications and the submissions filed therewith at the office of:

National Energy Board
Trebla Building
473 Albert Street
OTTAWA, Ontario
K1A 0E5

- 4 -

or at the offices of the Applicant at the following address:

Westcoast Transmission Company Limited
1333 West Georgia Street
VANCOUVER, British Columbia
V6E 3K9.

DATED at the City of Ottawa, in the Province of
Ontario, this 24th day of November, 1977.

NATIONAL ENERGY BOARD

Brian H. Whittle
Secretary

PROPOSED PRACTICE DIRECTIVES AND
OTHER MATTERS RELATING TO THE
CONDUCT OF THE HEARING

1. In this Directive

"Other written material" includes any document, sketch, graph, plan, map, or other writing that is not a public document.

"Party" means Westcoast Transmission Company Limited and any Respondent or Intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-2-77.

"Public Document" includes

- (a) any reports or decisions of the National Energy Board, the British Columbia Energy Commission, the Alberta Energy Resources Conservation Board, the United States Federal Power Commission and the United States Interstate Commerce Commission;
- (b) any report or publication of any department or agency of the Government of Canada, a Provincial Government or any Royal Commission appointed by those governments;
- (c) published financial and industrial indexes and reference materials;

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(d) the Canadian Institute of Chartered Accountants' Handbook;

(e) the annual reports of companies; and

(f) published reference books and texts.

2. Any party who wishes to present direct evidence to the Board at the Hearing shall prepare such evidence in written question and answer form and shall file fifteen (15) copies thereof with the Secretary of the Board and shall serve a copy thereof upon each other party.

3. Westcoast Transmission Company Limited shall file and serve its direct evidence on or before the 1st day of February, 1978, and all other parties shall file and serve their direct evidence on or before such day as may be specified by the Board.

4. A party shall, within a reasonable time prior to the presentation of its direct evidence, give notice to the Secretary of the Board and to each other party of any public document it intends to refer to in such direct evidence.

5. A party shall, within a reasonable time prior to the presentation of its direct evidence, file fifteen (15) copies with the Secretary of the Board and shall serve a copy on each other party of any other written material it intends to refer to in such direct evidence.

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6. Public documents unsupported by witnesses will be treated only as evidence that the department or agency or other person publishing the same made the findings of fact, made the assertions or drew the conclusions stated therein, and shall not be regarded as evidence of the truth of such facts or assertions, or of the validity of such conclusions.

7. Other written material shall not be admissible unless the party intending to introduce the same into evidence produces a witness prepared to support the truth of the facts and assertions and the validity of the conclusions therein and to be cross-examined on the same.

8. Any party intending to use either public documents or other written material in cross-examination of a witness shall advise the counsel calling such witness of his intention to do so in sufficient time to allow the witness to familiarize himself with such public document or other written material.

9. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

- 4 -

10. The Hearing shall be conducted in phases in the following order:

I (a) Depreciation

(b) Income Taxes

II (a) Rate Base and Cost of Service .

(b) Rate of Return

III Rate Design and Other Tariff Matters.

It is the Board's intention to hear the evidence, submissions and argument of all parties on each phase before advancing to the next phase.

11. The order of presentation of evidence and cross-examination shall be determined after the interventions have been filed and a prepared list shall be distributed at the pre-hearing conference.

12. Any party who, prior to the Hearing, wishes to obtain additional information from the Applicant in respect of matters raised in the Applications, may request in writing that such information be provided and the Applicant shall, as soon as possible, make a written response to that request.

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13. Where a party files and serves direct evidence pursuant to paragraph 2 of this order, any other party may, in lieu of cross-examining on any matter raised by such direct evidence, request in writing that certain information be provided, and the party to whom such written request is made shall, as soon as possible, make a written response to that request.

14. Both the request in writing and the response thereto, referred to in paragraphs 12 and 13, shall be filed as exhibits at the Hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. PO-2-RH-2-77

IN THE MATTER OF the National Energy
Board Act and the Regulations made
thereunder; and

IN THE MATTER OF applications by
Westcoast Transmission Company Limited
(hereinafter called "the Applicant")
for certain orders respecting rates and
tolls pursuant to Part IV of the National
Energy Board Act, filed with the Board
under File No. 1562-W5-3.

B E F O R E:

C.G. Edge	)	Monday, the 6th day of
L.M. Thur)	
R.F. Brooks	)	February, 1978.

UPON the Board having, by Order No. RH-2-77, set
down the applications of Westcoast Transmission Company
Limited for a public hearing to commence in the City of
Vancouver, in the Province of British Columbia, on the
14th day of February, 1978;

AND UPON the Board having by the said Order
directed that a pre-hearing conference be held in the City
of Vancouver, in the Province of British Columbia, on the
31st day of January, 1978, for the purpose of considering
the proposed practice directives set out in Appendix II to
the said Order and other matters relating to the conduct
of the said public hearing;

AND UPON the Board having considered the submissions
made by the parties attending the pre-hearing conference

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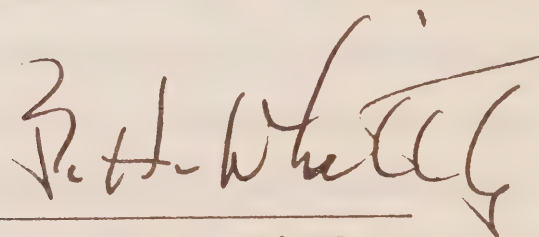
respecting the proposed practice directives and other matters relating to the timing and conduct of the hearing;

IT IS ORDERED THAT:

1. The public hearing of the applications of Westcoast Transmission Company Limited, as set down by Order No. RH-2-77 to commence on the 14th day of February, 1978, shall commence at 9:30 a.m. local time on the 28th day of February, 1978, in the Social Suite West of the Hotel Vancouver, in the City of Vancouver, in the Province of British Columbia;
2. The rules and procedures set out in Appendix I to this Order shall govern the conduct of the public hearing of the applications of Westcoast Transmission Company Limited.

DATED at the City of Ottawa, in the Province of Ontario, this 6th day of February, 1978.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

RULES AND PROCEDURES

1. In these Rules

"Other written material" includes any document, sketch, graph, plan, map, or other writing that is not a public document.

"Party" means Westcoast Transmission Company Limited and any Respondent or Intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-2-77.

"Public Document" includes

- (a) any reports or decisions of the National Energy Board, the British Columbia Energy Commission, the Alberta Energy Resources Conservation Board, the United States Federal Power Commission and the United States Interstate Commerce Commission;
- (b) any report or publication of any department or agency of the Government of Canada, a Provincial Government or any Royal Commission appointed by those governments;
- (c) published financial and industrial indexes and reference materials;
- (d) the Canadian Institute of Chartered Accountants' Handbook;

(e) the annual reports of companies; and

(f) published reference books and texts.

2. Any party who wishes to present direct evidence to the Board at the Hearing shall prepare such evidence in written question and answer form and shall file fifteen (15) copies thereof with the Secretary of the Board and shall serve a copy thereof upon each other party.

3. All Intervenors shall file and serve their direct evidence relating to Phase I of the Hearing on or before the 21st day of February, 1978.

4. Direct evidence relating to subsequent phases of the Hearing shall be filed and served on or before such day as may be specified by the Board.

5. A party shall, when it files its direct evidence, file fifteen (15) copies with the Secretary of the Board and shall serve a copy on each other party of any other written material it intends to refer to in such direct evidence.

6. Public documents unsupported by witnesses will be treated only as evidence that the department or agency or other person publishing the same made the findings of fact, made the assertions or drew the conclusions stated therein, and shall not be regarded as evidence of the truth of such facts or assertions, or of the validity of such conclusions.

7. Other written material shall not be admissible unless the party intending to introduce the same into evidence produces a witness prepared to support the truth of the

- 3 -

facts and assertions and the validity of the conclusions therein and to be cross-examined on the same.

8. Any party intending to use either public documents or other written material in cross-examination of a witness shall advise the counsel calling such witness of his intention to do so in sufficient time to allow the witness to familiarize himself with such public document or other written material.

9. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board or Board Counsel, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

10. The Hearing shall be conducted in phases in the following order:

I (a) Depreciation

(b) Income Taxes

II (a) Rate Base and Cost of Service

(b) Rate of Return

III Rate Design and Other Tariff Matters.

11. For the purposes of Phase I of the Hearing, the Board shall first hear all of the evidence adduced by the Applicant in respect of both depreciation and income taxes, and then shall hear the evidence of each of the Intervenor in respect of both issues.

12. Upon the completion of all the evidence in Phase I, the Board shall hear the argument of all parties on the Phase I issues.

13. The parties shall adduce evidence and shall cross-examine the witnesses of other parties in the following order:

1. British Columbia Petroleum Corporation
2. British Columbia Hydro and Power Authority
3. a) Inland Natural Gas Co. Ltd.
b) Peace River Transmission Company Limited
4. Canadian Petroleum Association
5. Amoco Canada Petroleum Company Ltd.
6. Dome Petroleum Ltd.
7. Mobil Oil Canada, Ltd.
8. Pan-Alberta Gas Ltd.
9. PanCanadian Petroleum Limited
10. Shell Canada Resources Limited
11. Canada Cement Lafarge Ltd.
12. Cominco Ltd.
13. Consumers Glass Company, Limited
14. Council of Forest Industries of British Columbia
15. Dow Chemical of Canada, Limited
16. Hiram Walker and Sons Limited
17. Northwest Pipeline Corporation
18. West Fraser Mills Ltd.
19. Independent Petroleum Association of Canada
20. Union of British Columbia Indian Chiefs

21. a) Foothills Pipe Lines (South Yukon) Ltd.
b) Foothills Pipe Lines (Yukon) Ltd.
22. TransCanada PipeLines Limited
23. Alberta Petroleum Marketing Commission
24. Attorney General for British Columbia
25. Board Counsel

except where a party other than Westcoast Transmission Company Limited presents direct evidence, where the above order of cross-examination is varied by placing Westcoast Transmission Company Limited after the Attorney General for British Columbia and before Board Counsel.

14. Any party who wishes to obtain additional information from the Applicant in respect of matters raised in the applications, may request in writing that such information be provided and the Applicant shall, as soon as possible, make a written response to that request.

15. Where a party files and serves direct evidence pursuant to paragraph 2 of these rules and procedures, any other party may request in writing that the party filing such direct evidence provide additional information respecting the matters dealt with in that direct evidence, and the party to whom such written request is made shall, as soon as possible, make a written response to that request.

16. Both the request in writing and the response thereto, referred to in paragraphs 14 and 15, shall be filed as exhibits at the Hearing.

NATIONAL ENERGY BOARD
OTTAWA, ONTARIO
K1A 0E5



OFFICE NATIONAL DE L'ÉNERGIE
OTTAWA, ONTARIO
K1A 0E5

File No.: 1562-W5-3

December 14, 1978

MEMORANDUM TO ALL PARTIES

RE: IN THE MATTER OF an application
by Westcoast Transmission
Company Limited under Part IV of
the National Energy Board Act:
Hearing of the Remainder of
Phase II and of Phase III

By Order No. PO-5-RH-2-77, a copy of which is attached, the National Energy Board has set down the continuation of the Westcoast rate hearing to commence in the City of Ottawa on Tuesday, February 6, 1979. The Board's Order also specifies the dates by which various filings are to be made by the Applicant and other parties.

In its Order, the Board has directed Westcoast to update its application so as to provide actual data for the 1978 calendar year as the base year, and for the period from July 1, 1979 to June 30, 1980 as the test year. The Board has also ordered Westcoast to provide with its updated application, a separate analysis of the new base year and test year data, identifying the differences between the base year and test year data, and the reasons for the various differences.

In view of the Review Decision, which leaves for consideration in the remainder of the hearing, matters relating to the depreciation rates on Westcoast's main transmission plant, the Board will hear evidence on all aspects of this question in the continuation of Phase II(a) of the hearing. As a result, Westcoast should, in filing its updated application, apply for such treatment of the depreciation of its main transmission plant as it considers appropriate.

On the resumption of the hearing on February 6, 1979, the Board will first deal with the following two issues:

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- (1) Title to the gas produced in British Columbia and transmitted by Westcoast through its pipeline system; and
- (2) Westcoast's submission dated October 18, 1978, respecting the interrelationship of Part IV of the National Energy Board Act with the British Columbia Petroleum Corporation Agreement.

The Board has requested that Westcoast provide a witness for purposes of cross-examination on the October 18, 1978 submission. The Board has, in its Order, prescribed the dates by which Westcoast and the British Columbia Petroleum Corporation are to file direct evidence on the title issue. Upon the completion of the evidence on the above two issues, the Board will hear oral argument on each of those issues.

On Monday, February 12, 1979, the Board intends to proceed with hearing the evidence on Phase II(b) of the hearing, being the rate of return, which will continue daily until that evidence is completed.

With respect to the continuation of Phase II(a), which will deal with the updated cost of service and rate base for the new test year, the remaining issues respecting the depreciation of main transmission plant, and any other outstanding issues respecting cost of service and rate base, the Board intends to commence the hearing of that Phase on Tuesday, March 6, 1979. The hearing of Phase II(a) will continue daily until completion of all the evidence in that Phase.

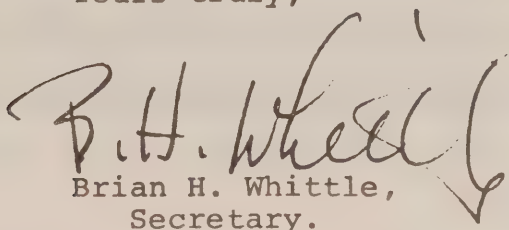
It is the intention of the Board to proceed immediately after hearing the evidence on Phase II, to hear the evidence on Phase III of the hearing, which will most likely take place in the City of Vancouver. Upon the completion of the evidence in Phases II and III, the Board would receive written argument on the two Phases.

Although the Board is converting to the International System of Units (SI) effective January 1, 1979, filings and proceedings in this hearing are to continue in the Imperial system of measurement which has been used in this proceeding to date.

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The hours of sitting for the hearing commencing on February 6, 1979, will, after the first day, be from 8:30 a.m. to 1:30 p.m. daily.

Yours truly,


Brian H. Whittle,
Secretary.

ORDER NO. PO-5-RH-2-77

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF an application by
Westcoast Transmission Company Limited
(hereinafter called "the Applicant") for
certain orders respecting rates and tolls
pursuant to Part IV of the National Energy
Board Act, filed with the Board under File
No. 1562-W5-3.

B E F O R E:

C.G. Edge)	
	)	on Thursday, the 14th day
L.M. Thur)	
	)	of December, 1978.
R.F. Brooks)	

UPON the Board having, by Order No. RH-2-77, set down
for public hearing the application dated the 15th day of
September, 1977, by Westcoast Transmission Company Limited
under Part IV of the National Energy Board Act respecting the
rates and tolls the Applicant may charge in respect of gas
transmitted by the Applicant through its pipeline;

AND UPON the Board having, by Order No. PO-2-RH-2-77,
directed that the hearing of the said application shall be
conducted in three phases, being:

Phase I	(a)	Depreciation
	(b)	Income Taxes
Phase II	(a)	Rate Base and Cost of Service
	(b)	Rate of Return

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Phase III Rate Design and Other Tariff
Matters;

AND UPON the Board having conducted the hearing of Phase I of the said application in the City of Vancouver, in the Province of British Columbia, from the 28th day of February, 1978, to the 14th day of March, 1978, and having, on the 24th day of May, 1978, issued its Decision on the issues raised in Phase I of the said hearing (hereinafter "the Phase I Decision");

AND UPON the Board having, on the application of certain parties to the hearing, conducted a review, pursuant to section 17 of the National Energy Board Act, of certain aspects of the Phase I Decision and having, on the 7th day of December, 1978, issued its Decision on the said review (hereinafter "the Review Decision");

AND UPON the Board having conducted a part of the hearing of Phase II of the said application in the City of Ottawa, in the Province of Ontario, from the 11th day of July, 1978 to the 20th day of July, 1978;

AND UPON the Board considering it desirable to establish the procedures to govern the hearing of the remainder of Phase II and of Phase III of the said hearing and, by reason of the time elapsed since certain filings were made, to require the updating of the said application to reflect the period

- 3 -

during which rates and tolls arising from the said application will be in effect and to permit the updating of certain direct evidence filed;

AND UPON the Board having, by Order No. PO-2-RH-2-77, directed that any party who wishes to present direct evidence to the Board at the hearing shall prepare such evidence in written question and answer form and shall file fifteen (15) copies thereof with the Secretary of the Board and shall serve a copy thereof upon each other party on or before such day as may be specified by the Board;

IT IS ORDERED THAT:

1. The continuation of the hearing of Phase II of the application by Westcoast Transmission Company Limited shall commence on Tuesday, the 6th day of February, 1979, at 9:30 a.m. local time, in the Hearing Room of the National Energy Board, Room 940, 473 Albert Street, in the city of Ottawa, in the province of Ontario.

2. The Applicant shall revise and update its application, dated the 15th day of September, 1977, in the following manner:

- (a) That section of the application under the tab "Base Year" shall be revised to provide actual data for the twelve-month period ending on the 31st day of December, 1978;

PO-5-RH-2-77

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- (b) That section of the application under the tab "Test Year" shall be revised to provide, for a test year commencing on the 1st day of July, 1979, and ending on the 30th day of June, 1980, data corresponding to that required by paragraph 2(a);
- (c) The revised "Test Year" data referred to in paragraph 2(b) shall reflect the decisions made by the Board in the Phase I Decision, as modified by the Review Decision;
- (d) A separate analysis shall be provided in which the "Test Year" data will be compared with that for the "Base Year" and differences identified; such differences shall be analysed to show separately the effects of changes in:
 - (i) throughputs,
 - (ii) prices and wage and salary rates,
 - (iii) the passage of time - e.g. the rate base is more depreciated,
 - (iv) other matters,and reasons for significant changes are to be provided;
- (e) That section of the application under the tab "Financial Data" shall be revised to reflect the test year specified in paragraph 2(b);

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(f) That section of the application under the tab "Rate Design" shall be revised to reflect the amounts determined for the test year in accordance with paragraphs 2(b) and 2(c).

3. The Applicant shall, on or before the 30th day of January, 1979, file twenty (20) copies with the Secretary of the Board and serve one (1) copy on each other party of its application as revised and updated in accordance with paragraph 2 hereof.

4. The Applicant shall, on or before the 15th day of January, 1979, serve and file its direct evidence in respect of the issue as to the title to the gas transmitted by it through its pipeline.

5. The British Columbia Petroleum Corporation shall, on or before the 30th day of January, 1979, serve and file its direct evidence in respect of the issue as to the title to the gas transmitted by Westcoast through its pipeline.

6. The Applicant shall revise and update its direct evidence respecting rate of return and shall serve and file such revised direct evidence on or before the 15th day of January, 1979.

7. The Applicant shall, on or before the 23rd day of January, 1979, file twenty (20) copies with the Secretary of the Board and serve one (1) copy on each other party of the

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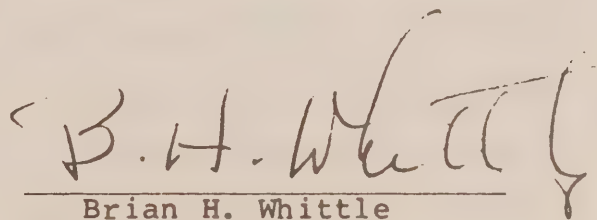
data, corresponding to that contained under the tab "Financial Data", for the test year specified in paragraph 2(b).

8. Those parties, other than the Applicant, who have filed direct evidence respecting rate of return, may revise and update such evidence and, if they so elect, shall serve and file such direct evidence on or before the 5th day of February, 1979.

9. The Applicant shall, on or before the 30th day of January, 1979, file and serve its direct evidence in respect of Phase II(a) of the hearing.

10. Those parties, other than the Applicant, who wish to present direct evidence in Phase II(a) of the hearing, shall serve and file such direct evidence on or before the 28th day of February, 1979.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

Ruling by the Board as to Certain Aspects of the
Method of Regulation for the Tolls and Tariffs of
Westcoast Transmission Company Limited -
Pages 5813 to 5817 of National Energy Board Transcript
dated 20 March 1979 in the matter of an application
by Westcoast Transmission Company Limited

The Board had anticipated the substance of the remarks made by Mr. Goldie this morning and, after having considered the transcript of those remarks, wishes to make the following statement:

There are several issues which, in the Board's view, require resolution at this time by reason of their impact upon the conduct of the remainder of the hearing of the Westcoast application. During the course of the Phase II hearing in February, the Board heard evidence and argument on the various issues relating to the scheme of regulation for the rates and tolls for Westcoast. It is clear to the Board that whatever scheme of regulation is adopted by the Board would have a major effect upon the nature and scope of the issues to be dealt with in Phase III of the hearing. Equally, the scheme of regulation has considerable bearing on the motion made by B.C. Hydro on February 12, 1979, in which the Board was requested to render a decision on Phase II of the hearing prior to proceeding with Phase III.

As a result, the Board is of the opinion that it should indicate its decision on one aspect of the scheme of regulation for Westcoast. In dealing with that aspect of the regulatory scheme, the Board has given careful consideration to the evidence and

submissions presented at the hearing in February and to the letter of March 8, 1979 from the Minister of Energy, Mines and Petroleum Resources of the Province of British Columbia, which has been filed with the Board and served on all parties.

Turning to the scheme of regulation, the Board considers it necessary to indicate its decision on the nature or type of order the Board will make on the conclusion of these proceedings. It is the Board's decision that the final order resulting from this hearing will be one under Part IV of the National Energy Board Act which will prescribe or otherwise provide for the tolls for Westcoast. The toll will be of a cost of service type with prospective control over costs. Such order will not result in any variation at the initiative of the Board in the price for natural gas specified in the contracts of sale between Westcoast Transmission and the various distributors in British Columbia, which contracts are filed with the Board as tariffs under section 51(2) of the National Energy Board Act. In this respect, the scheme of regulation would appear to be consistent with that proposed by the Attorney General of British Columbia and supported by a substantial number of the other parties to this hearing.

The Board will issue its reasons for this decision, and its decisions and reasons on the other aspects of the scheme of regulation at a subsequent time.

By reason of this decision, the Board considers it necessary to deal with certain aspects of the issues to be dealt with in Phase III of this hearing. It appears to the Board, in view of the foregoing decision, that it is unnecessary to deal

in Phase III with any issues relating to the design of tolls and allocation of Westcoast's cost of service as between the various distributors in the Province of British Columbia. The issues in Phase III would appear to be reduced to dealing with

- (1) the allocation of various components of Westcoast's cost of service as between gas originating in British Columbia and gas originating in Alberta, the Yukon and the Northwest Territories, and as between gas destined for the export market and the domestic market, and
- (2) the provisions of the Board's order giving effect to the various tolls resulting from an allocation of Westcoast's cost of service.

In view of what the Board considers to be the scope of Phase III of this hearing, the Board is now prepared to deal with the Motion made on behalf of B.C. Hydro. It is the Board's opinion that it is unnecessary to render a decision on Phase II of this hearing prior to proceeding with the hearing of Phase III, since the parties can, in the Board's view, deal effectively with the principles of cost allocation in Phase III without such a decision. Accordingly, the motion by B.C. Hydro is dismissed.

March 8, 1979

National Energy Board
473 Alberta Street
Ottawa, Ont.
K1A 0E5

Attention: Mr. Brian H. Whittle

Dear Sirs:

Re: In the matter of an application by Westcoast
Transmission Company Limited in part of the
National Energy Board Act - your file 1562 -
W5-3

I am advised that as a result of the current proceedings there will likely be an increase in Westcoast's cost of service applicable to gas sold by Westcoast to distributors in British Columbia ("Intra-Provincial Gas"). The Board would then normally face the prospect of reflecting that increase in the tariffs contained in the contract between Westcoast and the B.C. distributors, which in turn would be passed on to provincial consumers.

The Province of British Columbia recognizes the necessary relationship between the cost of service and the distributor tariff, but in order to maintain the flexibility of its wholesale gas pricing policy within British Columbia the province wishes the existing tariff in the distributor contracts to remain unchanged for the time being.

In order to permit the Board to leave these tariffs unchanged in these proceedings, the province is prepared to absorb the increased cost of service on Intra-Provincial gas out of the commodity price of the gas through the mechanism of the contract between British Columbia Petroleum Corporation and Westcoast. The increased cost of service may be passed along by the province, in whole or in part, through an increase in the wholesale price to B.C. distributors.

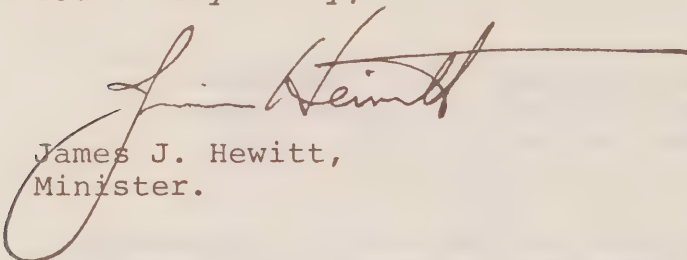
I therefore wish to advise the Board, on behalf of the province, that through its agent, the B.C. Petroleum Corporation, it will absorb any increase in the cost of service finally determined by the Board in these proceedings

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applicable to Intra-Provincial gas through the operation of the Petroleum Corporation/Westcoast contract in order to permit the Board to leave the existing tariff in the British Columbia distributor contracts unchanged.

The province contemplates the future changes in the prices set under the British Columbia distributor contracts or "wholesale prices" will be made through the base price mechanism set out in Clause 11 as amended of the Petroleum Corporation/Westcoast contract.

Yours very truly,

A handwritten signature in dark ink, appearing to read "James J. Hewitt", with a long horizontal line extending to the right.

James J. Hewitt,
Minister.

NORMALIZED INCOME TAXES

Estimated Effective Income Tax Rate for Test Year

	Exhibit 383 Application As Revised	Per N.E.B. *
<u>Accounting Income</u>		
Operating Income	\$75,335,256	\$75,335,256 (1)
Deduct: Financial Charges	<u>32,500,228</u>	<u>32,500,228</u> (2)
Net Income After Income Taxes	<u>\$42,835,028</u>	<u>\$42,835,028</u> (D)
<u>Add (Deduct): Permanent Differences</u>		
Gains on Debt Purchased in Advance Used To Reduce Interest Expense	\$ --	\$ (755,856) (2)
Non-Allowable Expenses	78,000	72,345 (3)
Inventory Credit	(150,000)	(150,000)
Non-Allowable Portion of Debt Discount Expense	315,000	291,765 (3)
Foreign Exchange (Gains) Losses	735,000 (4) (a)	454,000 (4) (b)
Net Capital Gains	--	150,000 (4) (a)
Annual Amortization of Equity Portion of IDC	435,000	435,000
Equity Portion of IDC	<u>(2,840,000)</u>	<u>---</u> (5)
Net Permanent Differences	<u>\$ (1,427,000)</u>	<u>\$ 497,254</u>
	<u>\$41,408,028</u>	<u>\$43,332,282</u>
<u>Shared "Tax Benefit"</u>	<u>--</u>	<u>(2,449,926)</u>
<u>Taxable Income</u>	<u>\$41,408,028</u>	<u>\$40,882,356</u> (A)
<u>Income Taxes Excluding Timing Differences</u>	<u>\$43,098,152</u>	<u>\$42,551,024</u> (B)
(B) = (A) x 51/49		
Cross-Over Adjustment	<u>5,194,714</u>	<u>--</u>
<u>Income Taxes After Cross-Over Adjustment</u>	<u>\$48,292,866</u>	<u>\$42,551,024</u> (C)
<u>Estimated Effective Income Tax Rate</u>	<u>53.00%</u>	<u>49.83%</u>
(C) + (D)		

* Test year amounts have been used for the purpose of estimating the effective income tax rate.

Adjustments to Financial Charges
and Allocable Permanent Differences, etc.
to Reflect The Sharing of "Tax Benefits"

Item (Exhibit Reference)	Submitted Total Corporate Amount	(6) N.E.B. Approved Allocation (79.5%)	Unapplied Difference or "Tax Benefit"
Financial Charges:			
- Interest on Long Term Debt (268)	\$41,196,000	\$32,750,820	\$(8,445,180)
- Amortization of Debt Expense (268)	646,000	513,570	(132,430)
- Adjustment for Interest Attributed to Current IDC (361)			3,776,518
Permanent Differences:			
- Non-Allowable Ex- penses (361)	91,000	72,345 (3)	18,655
- Non-Allowable Debt Discount Expense (361)	367,000	291,765 (3)	75,235
- Net Capital Gains	189,000	150,000	39,000 (
Foreign Exchange Loss on Interest (268)	1,130,000	898,350	<u>(231,650)</u>
Total Difference or "Tax Benefit"			<u>(\$4,899,852)</u>
One-Half of Difference or Shared "Tax Benefit"			<u>(\$2,449,926)</u>

Notes

1. Operating Income is the amount that was estimated by the Applicant for the test year and has been used for the purpose of estimating the effective income tax rate.
2. GAINS ON DEBT PURCHASED IN ADVANCE USED TO REDUCE INTEREST EXPENSE

Westcoast deducted Financial Charges of \$32,500,228 from the Operating Income before adjusting for permanent differences.

The Board determined that this amount consisted of the following items:

- Interest on Long Term Debt	\$32,742,642
- Amortization of Debt, Discount and Expense	513,442
- Gains on Long Term Debt Purchased in Advance used to reduce Interest Expense	<u>(755,856)</u>
Net Financial Charges	<u>\$32,500,228</u>

Since the amount for Gains on Long Term Debt Purchased in Advance is not representative of the taxable portion of capital gains for income tax purposes, the Board has eliminated that amount in determining the effective income tax rate. That is, there is no requirement to offset interest expense against the \$755,856 for income tax purposes because it represents an amount for accounting purposes only. The taxable portion of capital gains on repurchase of long term debt is described in note (4)(a) hereunder.

3. Refer to the Schedule of Adjustments to Financial Charges and Allocable Permanent Differences, etc. to Reflect the Sharing of "Tax Benefits".
4. (a) NET CAPITAL GAINS

The Applicant included an amount of \$735,000 in respect of "Foreign Exchange Losses" as a permanent difference.

The supporting details for the \$735,000 were provided by the Applicant in Exhibit 361 as follows:

	<u>1979</u>	<u>1980</u>
Foreign Exchange Losses	\$2,110,000	\$1,400,000
Debt Redemption Gains	<u>897,000</u>	<u>900,000</u>
	<u>\$1,213,000</u>	<u>\$ 500,000</u>
Total for 1979 and 1980	<u>\$1,713,000</u>	
Average	<u>\$ 857,000</u>	
Utility Portion at 85.8%	<u>\$ 735,000</u>	

In cross-examination a witness for Westcoast testified that the above amounts of \$2,110,000 and \$1,400,000 of "Foreign Exchange Losses" represented foreign exchange on debt redemption and were computed on the basis of CICA recommendations made in 1978 and which have now been suspended. These recorded amounts for accounting purposes are not used for determining net income after taxes on page 1 of 6 for income tax purposes. Further, the Westcoast witness inferred that the "Debt Redemption Gains" of \$897,000 and \$900,000 represented capital gains for income tax purposes.

Given that the foreign exchange rate was 1.000000 U.S. = \$1.002187 Canadian on December 31, 1971 and that all company U.S. debt redeemed in the test year was issued prior to 1971 and other information supplied by the Applicant, the Board estimated the projected tax related capital loss on foreign exchange with respect to U.S. debt redemptions to be approximately \$521,147.* The following calculations were used in determining this amount:

1979 - \$2,526,700	X (1.13 - 1.002187) =	\$ 322,945
1980 - \$6,672,200	X (1.11 - 1.002187) =	<u>\$ 719,350</u>
Total of 1979 and 1980		<u>\$1,042,295</u>
Average		<u>\$ 521,147</u>

* December 31, 1971 is the "Valuation Day" used in the determination of taxable capital gains and losses.

The .13 and .11 were the Company projected exchange differentials for 1979 and 1980 respectively.

The average capital gain for tax purposes in respect of "debt purchased in advance" would be $(\$897,000 + \$900,000)/2 = \$898,500$.

The net of these estimated capital losses and capital gains for tax purposes would be $(\$898,500 - \$521,147) \$377,353$. One-half or approximately \$189,000 of this amount is taxable and the utility portion allocated on a 79.5 percent basis would be \$150,000.

The Board found \$150,000 to be a reasonable amount to be included as a permanent difference addition in Westcoast's normalized income tax calculation.

(b) FOREIGN EXCHANGE (GAINS) LOSSES

The Applicant applied to recover in its cost of service \$454,000 in respect of projected "cash" outlays on foreign exchange losses on U.S. debt redemptions. Recovery of this amount in cost of service will result in taxable income which is not reflected in accounting income and was not included in the Applicant's calculation of the taxable income.

The Board, therefore, has included \$454,000 as a permanent difference addition in Westcoast's normalized income tax calculation.

5.

EQUITY PORTION OF INTEREST DURING CONSTRUCTION

The Applicant deducted an amount of \$2,840,000 as a permanent difference in its normalized income tax calculation in respect of the capitalized equity portion of IDC projected to be incurred on construction in the test year. The Board believes that Westcoast has inadvertently made an error in respect of this item.

6. ALLOCATION FACTORS

In respect of various allocable items, the Applicant has directly and indirectly used two different allocation factors for determining the amount of such items to be attributed to the utility in making its normalized income tax calculation. One allocation factor was 79.5 percent and the other was 85.8 percent. These were based on the following formulas:

		<u>\$ million</u>	
<u>Rate Base</u>	=	<u>\$680</u>	= 79.5%
Total Capitalization		\$856	
<u>Net Utility Plant</u>	=	<u>\$694</u>	= 85.8%
Total Investment		\$808	

The 79.5 percent factor was employed by the Applicant in determining the financial charges to be used in the normalized income tax calculation and the financial charge portion of the return on rate base. The 79.5 percent factor was also used by the Applicant in determining the foreign exchange costs to be included in the cost of service. The 85.8 percent allocation factor was used for most permanent and timing differences in the Applicant's income tax calculations.

The Board believes that the same percentage should be used and approves the 79.5 percent allocation factors because it is more representative of the proportion of the total capital employed in Westcoast's utility operations.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TG-5-79

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF an application by
Westcoast Transmission Company Limited
(hereinafter called "Westcoast") for
certain orders respecting rates and tolls
pursuant to Part IV of the National Energy
Board Act, filed with the Board under
File No. 1562-W5-3.

B E F O R E:

C.G. Edge)	
Vice-Chairman)	
)	
L.M. Thur)	
Associate Vice-Chairman	)	on Thursday, the 20th day
)	
R.F. Brooks	)	of September, 1979.
Associate Vice-Chairman)	

UPON an application by Westcoast Transmission Company Limited dated the 15th day of September, 1977, firstly, for an order or orders under sections 50 and 53 of the National Energy Board Act giving effect to the tolls which Westcoast proposed in its application to charge in respect of natural gas produced in the Province of British Columbia and sold by Westcoast to its domestic and export customers, and disallowing any tolls and tariffs inconsistent with the proposed new tolls and tariffs and, secondly, under subsection 53(1) of the Petroleum Administration Act for an order or orders amending the existing Special Orders made in respect of natural gas produced in the Province of Alberta and in the Yukon and

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Northwest Territories to reflect the proposed new tolls for the transmission of that gas through Westcoast's pipeline;

AND UPON the Board having, by Order No. RH-2-77, dated the 24th day of November, 1977, set down that portion of the said application made under Part IV of the National Energy Board Act for a public hearing and having, by Order No. PO-2-RH-2-77 dated the 6th day of February, 1978, directed that the said public hearing be conducted in three phases, being:

- | | |
|-----------|---------------------------------------|
| Phase I | (a) Depreciation |
| | (b) Income Taxes |
| Phase II | (a) Rate Base and Cost of Service |
| | (b) Rate of Return |
| Phase III | Rate Design and Other Tariff Matters; |

AND UPON the Board having conducted the hearing of Phase I of the said application in the City of Vancouver, in the Province of British Columbia, from the 28th day of February, 1978, to the 14th day of March, 1978, and having on the 24th day of May, 1978, issued its Decision in the issues raised in Phase I of the said hearing (hereinafter the "Phase I Decision");

AND UPON the Board having, on the application of certain parties to the said hearing, undertaken a review, pursuant to section 17 of the National Energy Board Act, of

certain aspects of the Phase I Decision and having, on the 7th day of December, 1978, issued its Decision on the said review;

AND UPON the Board having conducted the hearing of Phase II of the said application in the City of Ottawa, in the Province of Ontario, from the 11th day of July, 1978, to the 20th day of July, 1978, from the 6th day of February, 1979, to the 23rd day of February, 1979, and from the 20th day of March, 1979, to the 28th day of March, 1979;

AND UPON the Board having conducted the hearing of Phase III of the said application in the City of Vancouver, in the Province of British Columbia, from the 23rd day of April, 1979, to the 26th day of April, 1979, and having received the final written arguments filed on behalf of the parties to the said hearing;

AND UPON the Board being satisfied that the tolls to be charged and received by Westcoast, effective the 1st day of November, 1979, in accordance with this Order and the Board's Reasons for Decision dated September, 1979, in the Matter of the Application under Part IV of the National Energy Board Act of Westcoast Transmission Company Limited (hereinafter the "September 1979 Reasons for Decision") are just and reasonable;

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IT IS DECLARED THAT:

1. Pursuant to sections 11 and 50 of the National Energy Board Act, the Board's method of regulating the tolls to be charged and received by Westcoast and the tariff to be filed by Westcoast in accordance with this Order, shall be as set forth in Schedule A attached to and forming part of this Order.

AND IT IS FURTHER ORDERED THAT:

2. Westcoast shall, effective the 1st day of November, 1979, charge, receive or otherwise retain out of the gross revenues received by it in respect of the natural gas transmitted by it through its pipeline and sold by it in each month during the term of this Order, those tolls for each such month as are determined in accordance with this order and the September 1979 Reasons for Decision.

3. For the purpose of determining the tolls to be charged, received or retained in respect of the natural gas transmitted by it through its pipeline and sold by it in each month during the term of this Order, Westcoast shall:

- (a) calculate its total cost of service for each such month in accordance with the requirements specified in Schedule B attached to and forming part of this Order and in conformity with the September 1979 Reasons for Decision, and

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(b) allocate its total cost of service for each such month as between natural gas produced in

- (i) the Province of British Columbia,
- (ii) the Province of Alberta, and
- (iii) the Yukon and Northwest Territories

in accordance with the requirements set out in Schedule C attached to and forming part of this Order and in conformity with the September 1979 Reasons for Decision,

and the cost of service for each such month so allocated shall constitute the tolls to be charged, received or retained by it in respect of the natural gas purchased by Westcoast from the British Columbia Petroleum Corporation, gas producers in the Province of Alberta and gas producers in the Yukon and Northwest Territories.

4. During the term of this Order, Westcoast shall not charge, receive or otherwise retain out of the gross revenues received by it in respect of natural gas transmitted through its pipeline and sold by it, any tolls other than those tolls determined in accordance with this Order and the September 1979 Reasons for Decision.

AND IT IS FURTHER ORDERED THAT:

5. Westcoast shall, effective the 1st day of November, 1979, adopt the normalized method of tax accounting in respect of current income taxes for both accounting and cost of service toll purposes.

6. Westcoast shall, effective the 1st day of November, 1979, utilize the rates of depreciation set forth in Schedule D attached to and forming part of this Order for both accounting and cost of service toll purposes.

7. Westcoast shall, effective the 1st day of November, 1979, utilize a Rate of Return before Taxes on Rate Base of 16.94 per cent for cost of service toll purposes.

AND IT IS FURTHER ORDERED THAT:

8. Westcoast shall not include in the tolls to be charged during the period commencing on the 1st day of November, 1979, and ending on the 30th day of June, 1980, any amount on account of

- (a) wages, salaries and benefits included in
Operating and Maintenance Expenses, and
- (b) Operating and Maintenance Expenses other
than wages, salaries and benefits

which, when added to the actual amounts included in its cost of service in respect of the months of July to October, 1979, inclusive, would result in amounts for those expenses being recovered in excess of the approved annual budgets specified in Schedule E attached to and forming part of this Order.

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9. Where Westcoast incurs expenses in respect of the items referred to in paragraph 8 in excess of the amounts specified in Schedule E to this Order, Westcoast shall include those excess expenses in Account 179 - Other Deferred Debits, together with carrying charges on the month end balance of the account at $1/12$ of the sum of the prime interest rate plus 1 per cent.

AND IT IS FURTHER ORDERED THAT:

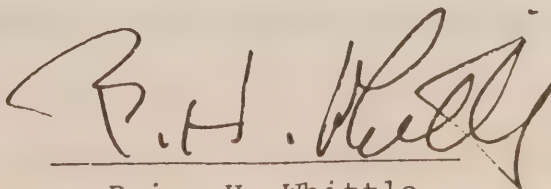
10. Westcoast shall forthwith file with the Board and serve upon all parties to the hearing of this application, a tariff conforming with this Order and the September 1979 Reasons for Decision.

11. Notwithstanding the filing of the said new tariff and tolls, the same shall remain suspended and be of no effect until the 1st day of November, 1979.

AND IT IS FURTHER ORDERED THAT:

12. Westcoast shall, within such times as are prescribed by the Board and in such form and detail as may be specified by the Board, file with the Board such information as may be required by this Order and the September 1979 Reasons for Decision.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read "B.H. Whittle", is written over a horizontal line.

Brian H. Whittle
Secretary

SCHEDULE A

THE NATIONAL ENERGY BOARD'S METHOD FOR
REGULATING THE TOLLS OF WESTCOAST
TRANSMISSION COMPANY LIMITED AND THE
TARIFF TO BE FILED PURSUANT TO THIS
ORDER

The following method shall be applied to the regulation of the tolls of Westcoast and the tariff to be filed in accordance with this Order:

Audit

1. The Board will audit Westcoast's calculations of rate base, cost of service and tolls at least once a year. The Board's audit reports will be public documents available for examination by interested parties.

Interested Parties

2. The Attorney General of British Columbia, the British Columbia Petroleum Corporation ("BCPC"), groups representing out-of-province producers, and the customers of Westcoast will be granted interested party status in all matters related to tolls subsequent to the hearing called by the Board's Order No. RH-2-77.

Rate Base

3. Beginning with the first month the proposed method is applicable and as of the first of each succeeding month, a rate base shall be calculated by Westcoast using the principles set out by the Board in the September 1979

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Reasons for Decision and this Order. This shall include the rate base at 31 December 1978 as determined by the Board in the September 1979 Reasons for Decision, plus subsequent capital expenditures on construction approved by the Board under Part III of the NEB Act which have been recorded in the plant account set out in Schedule "D" to the NEB Gas Pipe Line Uniform Accounting Regulations, and appropriate adjustments to other rate base items including the working capital allowance. Deferred income taxes calculated on the basis approved by the Board are to be deducted from rate base. The rate base for toll purposes is to be the average of the opening and closing balances for the month.

4. Any new type of item proposed for inclusion in the subsequent monthly rate base determinations will require prior Board approval (and items deemed by the Board to be significant will be subject to review by interested parties).
5. Westcoast's adjustment to its rate base from 31 December 1978 to the start of new tolls arising from the Decision in these proceedings is to be filed with the Board for the approval of the Board.

Cost of Service

6. The following represent costs that the Board is prepared to allow to be flowed through into the monthly cost of service automatically, provided the principles or methods of

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computation have been previously approved, or where the costs are largely outside the control of the company:

- operating and maintenance expenses
 - (a) salaries, wages and benefits
 - (b) other expenses
- for each of these two items up to annual budget previously approved by the Board;
- municipal taxes (in the absence of unusual circumstances);
- depreciation;
- amortization (once the item to be amortized has been authorized);
- actual gains and losses on foreign exchange transactions;
- return before taxes on rate base; and
- miscellaneous operating revenues (as a credit to the cost of service).

7. The following represents costs for which interested parties will have the right to request a review and which require the approval of the Board;

- annual budgets of operating and maintenance expenses (if Westcoast wishes to change from the year beginning 1 July, the Board would be willing to consider such a change);

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- disposition of deferred costs arising from overruns of salaries, wages and benefits in operating and maintenance expenses and of other operating and maintenance expenses (deferral costs will include a monthly carrying charge of 1/12 of prime bank rate plus 1%);
 - changes in the bases of allocating Westcoast's administrative and general expense to its pipeline operations, changes in method of determining the overhead during construction, and changes in any other bases of allocating Westcoast's costs to its pipeline operations.
8. An application to change the basis of the principles or methods of determining costs in item 6 will require a public hearing.
9. Notwithstanding any of the foregoing, Westcoast may automatically include in the cost of service any unusual costs resulting from emergency actions, e.g., repairing a line break. The Board should be notified immediately of such costs and will rule whether the amounts recovered from these costs should be recorded as revenue or deferred pending an investigation by the Board.
10. In respect of any major unusual costs not provided for above, Westcoast is required to seek a prior ruling of the Board whether such costs can be automatically included in the cost of service or should be deferred.

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11. Where Westcoast and/or interested parties request a review of certain costs or have complaints, apart from the matters identified in item 6 above, the Board, unless it otherwise orders, will deal with them by means of written submissions.

Efficiency and Productivity

12. Westcoast will be required to provide information to the Board and interested parties from time to time on the efficiency and effectiveness of its operations. The Board will determine the frequency of such reports. The form and content thereof will require the approval of the Board.

Information Requirements

13. Each month, Westcoast will file with the Board, and if requested by any interested party serve upon any such party, information in a form satisfactory to the Board on:
 1. derivation of rate base;
 2. components of cost of service;
 3. allocation of cost of service to
 - (a) BCPC,
 - (b) Alberta producers,
 - (c) Northwest Territories and Yukon producers;and

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4. changes in Maximum Daily Volume Obligations

("MDVO's") used for allocating costs.

Written comments should be provided to give insight into significant matters.

14. Three months before the start of a new budget year, Westcoast shall submit to the Board and interested parties its detailed budgets for the ensuing year for salaries, wages and benefits included in operating and maintenance expenses and also for other operating and maintenance expenses. Interested parties if they wish to do so should make representations to the Board two months before the application of the new budgets. Subsequently, the Board will make known its decision on the authorized budgets for operating and maintenance expenses.

Clarification of Method for Regulating the Tolls

15. Where Westcoast or any interested party requires clarification of the method of regulation in relation to any situation arising in any month during the term of this Order, a formal request should be made to the Board with a copy being served on interested parties.

SCHEDULE B

Westcoast Transmission Company Limited
Determination of Monthly Cost of Service
Effective 1 November 1979

1. Calculation of Average Monthly Rate Base

- (a) The average monthly rate base for toll purposes shall consist of the following components:

Gas Plant in Service
Accumulated Depreciation (credit)
Gas Plant Held for Future Use
Preliminary Surveys and Investigations
Contributions in Aid of Construction (credit)
Cash Working Capital
Materials and Supplies
Line Pack Gas
Prepaid Expenses
Deferred Income Taxes (credit)

- (b) Westcoast shall forthwith file for the approval of the Board, an adjusted rate base as at 1 November 1979. Such adjusted rate base shall be the 31 December 1978 rate base which was approved in the September 1979 Reasons for Decision with subsequent adjustments made in accordance with the principles set out in the September 1979 Reasons for Decision.
- (c) Effective 1 November 1979 the rate base for each month during the term of this order shall be determined in accordance with the following methods or criteria:

- 2 -

- (i) Unless otherwise indicated or directed by the Board, dollar amounts used for rate base calculations shall be those recorded in the Company's accounts kept in accordance with the NEB Gas Pipe Line Uniform Accounting Regulations.
- (ii) The rate base each month for toll purposes shall be the average of the opening and closing balances for that month.
- (iii) Gas Plant in Service shall be adjusted to include capital expenditures on construction approved by the Board under Part III of the N.E.B. Act and for which leave to open, if required, has been granted.
- (iv) Accumulated Depreciation shall be adjusted for depreciation expense included in the cost of service.
- (v) Gas Plant Held for Future Use
Additions to Gas Plant Held for Future Use shall meet the requirements of Section 102(1) of the Gas Pipe Line Uniform Accounting Regulations. Commencing 1 November 1979, the amount remaining from the 31 December 1978 balance shall be amortized to cost of service over five years.

- 3 -

(vi) Preliminary Surveys and Investigations

Additions to Preliminary Surveys and Investigations shall represent costs that were prudent and proper, and useful to the Company.

(vii) Contributions in Aid of Construction

Adjustments shall be made for contributions for the alteration or replacement of existing assets at the request of government agencies.

(viii) Cash Working Capital

Cash Working Capital each month shall be equal to the Operating and Maintenance Expenses (excluding transportation charges and fuel gas) included in the cost of service for that month.

(ix) Materials and Supplies

Additions to Materials and Supplies shall represent costs which are prudent and proper, and useful to the Company.

(x) Line Pack Gas

Line Pack Gas shall be valued at the average unit cost of gas for the month.

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(xi) Prepaid Expenses

Actual Prepaid Expenses shall be included in rate base when incurred and subsequently the amount net of amortization shall be included in the rate base over the period to which they apply. Rate case expenses shall not be included in rate base.

(xii) Deferred Income Taxes

The amount to be deducted from rate base in any month for Deferred Income Taxes shall be the accumulated deferred income taxes for the previous month.

(xiii) Any new type of item proposed for inclusion in the rate base will require prior Board approval.

2. Calculation of Monthly Cost of Service

(a) The monthly cost of service for toll purposes shall consist of the following components:

Operating and Maintenance Expenses
Depreciation
Amortization
Taxes Other Than Income Taxes
Miscellaneous Operating Revenues
Foreign Exchange Gains or Losses on Debt
Return before Taxes on Rate Base
Other Cost of Service Adjustments.

(b) Effective 1 November 1979 the cost of service for each month during the term of this Order shall be calculated in accordance with the following methods or criteria:

- 5 -

- (i) Unless otherwise indicated or directed by the Board, dollar amounts used for cost of service calculations shall be those recorded in the Company's accounts kept in accordance with the NEB Gas Pipe Line Uniform Accounting Regulations.
- (ii) Operating and Maintenance Expenses
Actual Operating and Maintenance Expenses for salaries, wages and benefits shall be included up to the annual budget for salaries, wages and benefits set out in Schedule E. Actual Operating and Maintenance Expenses for other items shall be included up to the annual budget for other items set out in Schedule E.
- (iii) Depreciation
Depreciation shall be based on those rates set out in Schedule D to this Order.
- (iv) Amortization
Amortization shall include only those amounts which have been authorized by the Board.
- (v) Taxes Other Than Income Taxes
Taxes Other Than Income Taxes shall be the actual amounts paid, in the absence of unusual circumstances.

(vi) Miscellaneous Operating Revenues

Miscellaneous Operating Revenues shall be credited to the cost of service automatically.

(vii) Foreign Exchange Gains or Losses on Debt

Actual losses or gains on foreign exchange on debt transactions shall be included in or deducted from cost of service automatically.

(viii) Return before Taxes on Rate Base

Return before Taxes on Rate Base shall be the amount calculated by multiplying $1/12$ of the allowed Rate of Return before Taxes on Rate Base by the monthly rate base for toll purposes.

(ix) Other Cost of Service Adjustments

Other Cost of Service Adjustments shall include: credits or debits arising from gains or losses on line pack revaluations; credits or debits arising from the purchase of best efforts gas (see Schedule C of this Order, Item 5, Best Efforts Gas); Board dispositions allowing deferred costs (including carrying charges) arising from overruns of Operating and Maintenance Expenses;

and other costs which have been approved by the Board under the special provisions of the "Method for Regulating the Tolls of Westcoast" described in Schedule A of this Order.

SCHEDULE C

Westcoast Transmission Company Limited
Allocation of Monthly Cost of Service to
the Territories Producers, Alberta
Producers, and the British Columbia
Petroleum Corporation
Effective 1 November 1979

1. Segmentation of the System

Westcoast's utility system shall be divided
into thirteen sections, as follows:

- Section 1 - Mainline facilities south of
and including Compressor
Station No. 2.
- Section 2 - Fort Nelson Mainline facilities.
- Section 3 - Fort Nelson Plant.
- Section 4 - Fort Nelson Gathering System.
- Section 5 - Beaver River Line.
- Section 6 - Pointed Mountain Line.
- Section 7 - Mainline facilities from
Compressor Station No. 1 to
Compressor Station No. 2.
- Section 8 - McMahon Plant.
- Section 9 - Fort St. John Gathering System.
- Section 10 - 16" and 26" Dry Gas Lines.
- Section 11 - Boundary Lake Plant.
- Section 12 - Westcoast Alberta Line.
- Section 13 - Grizzly Valley Gathering System
and Pine River Plant.

2. Distribution of Rate Base Components

Rate base components shall be distributed to the thirteen sections, as follows:

- (a) Gas Plant in Service for major facilities shall be identified and directly assigned to the various sections. General and minor plant shall be allocated pro rata on a major gross plant in service dollar basis to each section except for Section 8.
- (b) Accumulated Depreciation shall be distributed to sections in accordance with the distribution of Gas Plant in Service.
- (c) Gas Plant Held for Future Use related to gathering pipeline material shall be allocated pro rata on a gross plant basis to Sections 4 and 9. Gas Plant Held for Future Use related to transmission materials shall be allocated pro rata on a gross plant basis to Sections 1 and 2.
- (d) Preliminary Surveys and Investigations covering mainline looping studies shall be allocated pro rata on a gross plant dollar basis to Sections 1 and 2. Preliminary Surveys and Investigations on the Fort Nelson Gathering System shall be assigned directly to Section 4.

- 3 -

- (e) Contributions in Aid of Construction received after January 1, 1977 shall be directly assigned to the sections.
Contributions in Aid of Construction received before January 1, 1977 shall be allocated pro rata on a gross plant dollar basis to all sections.
- (f) Cash Working Capital shall be distributed to the sections pro rata on the basis of Operating and Maintenance Expenses less costs of gathering and transportation of gas by others.
- (g) Materials and Supplies for Sections 3, 8 and 13 shall be directly assigned.
Materials and Supplies for other warehouses shall be allocated pro rata on a gross plant dollar basis to the other sections.
- (h) Line Pack Gas shall be directly assigned on a volumetric basis to each section.
- (i) Prepaid Expenses shall be allocated on a gross plant dollar basis to each section; except as follows: prepaid property taxes shall be allocated to the sections on the basis of property tax expense, and prepaid expenses related to utility exchange, under

- 4 -

the McMahon Plant agreement or Pacific agreements, shall be assigned directly to Section 8.

- (j) The deduction from rate base of Deferred Income Taxes shall be allocated to the sections pro rata on the same basis as rate base.

3. Distribution of Cost of Service Components

Cost of service components shall be distributed to the thirteen sections as follows:

- (a) Operating and Maintenance Expenses shall be directly assigned to each section except for Fort St. John Pipeline Operating and Maintenance Expenses which shall be allocated to Section 9 and 10 on a gross plant dollar basis.
- (b) Depreciation shall be directly assigned in accordance with the distribution of Gas Plant in Service.
- (c) Amortization of the abandoned pipeline costs shall be assigned directly to Section 4. Amortization of rate case expenses shall be allocated pro rata on a gross plant dollar basis to all sections.

- (d) Taxes Other Than Income Taxes shall be distributed to the sections as follows:
coloured gasoline tax on fuel consumption, and property and business taxes shall be directly assigned to each section. British Columbia Corporation Capital Taxes shall be allocated pro rata on a net plant basis to all sections except Sections 6 and 12.
- (e) Miscellaneous Operating Revenues shall be allocated pro rata on a gross plant dollar basis to all sections.
- (f) Foreign Exchange Gains or Losses on Debt shall be allocated to the sections pro rata on the same basis as rate base.
- (g) Return before Taxes on Rate Base shall be allocated to the sections on the same basis as rate base.
- (h) Other Cost of Service Adjustments shall be allocated to the sections using a suitable allocation method for each item which is generally in accordance with the allocation principles set out for other corresponding items.

4. Allocation of Monthly Cost of Service

The monthly cost of service components (as set forth in item 3 above) for each of the thirteen sections shall be classified as either fixed or variable costs. For each of the thirteen sections, MDVO's, actual throughputs (residue gas volumes) and mileages shall be determined for the purpose of cost allocation. The monthly cost of service shall then be allocated to the Territories producers, the Alberta producers and the BCPC, as follows:

- (a) The Section 1 cost of service shall be allocated to the Territories producers, the Alberta Producers and the BCPC - fixed costs on the basis of MDVO-miles; variable costs on the basis of Mcf-miles of throughput.
- (b) The Section 2 cost of service shall be allocated to the Territories producers and the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (c) The Section 3 cost of service shall be allocated to the Territories producers and the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.

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- (d) The Section 4 cost of service shall be allocated to the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (e) The Section 5 cost of service shall be allocated to the Territories producers and the BCPC - fixed costs on the basis of MDVO-miles; variable costs on the basis of Mcf-miles of throughput.
- (f) The Section 6 cost of service shall be allocated to the Territories producers - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (g) The Section 7 cost of service shall be allocated to the Alberta producers and the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (h) The Section 8 cost of service shall be allocated to the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (i) The Section 9 cost of service shall be allocated to the BCPC - fixed costs on

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the basis of MDVO's; variable costs on the basis of Mcf's of throughput.

- (j) The Section 10 cost of service shall be allocated to the Alberta producers and the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (k) The Section 11 cost of service shall be allocated to the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (l) The Section 12 cost of service shall be allocated to the Alberta producers - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.
- (m) The Section 13 cost of service shall be allocated to the BCPC - fixed costs on the basis of MDVO's; variable costs on the basis of Mcf's of throughput.

5. Best Efforts Gas

Should Westcoast, in any month, purchase gas from a producer(s) under a best efforts gas purchase contract, then such producer(s) will be allocated a pro rata share of the average monthly charge applicable to

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gas produced by other producer(s) utilizing the same sections of Westcoast's system. In the subsequent month, the total of the cost of service allocated to the producer(s) from whom Westcoast purchased best efforts gas ("best efforts cost of service") will be credited to the cost of service of each section utilized by the best efforts gas in the proportion that such best efforts cost of service was attributable to each section.

6. Allocation of Compressor Fuel and Unaccountable Losses

In the determination of volumes purchased from each producer and resold, volumes for compressor fuel and unaccountable losses shall be allocated on the same basis as variable costs, as more fully described in item 4 above.

SCHEDULE D

Westcoast Transmission Company Limited:
Approved Depreciation Rates for
Accounting and Cost of Service Toll
Purposes Effective 1 November 1979

<u>Line Number</u>	<u>Particulars</u>	<u>NEB Account Number</u>	<u>Approved Rates %</u>
	<u>Intangible Plant</u>		
1	Franchises and Consents	401	5.0
2	Other Intangible Plant	402	5.0
	<u>Gathering Plant</u>		
3	<u>Fort St. John</u>		
4	Land	410	-
5	Land Rights	411	3.0
6	Compressor Structures	412	3.0
7	Measuring Structures	413	5.0
8	Other Structures	414	5.0
9	Gathering Lines	415	3.0
10	Compressor Equipment	416	3.0
11	Measuring and Regulating Equipment	417	5.0
12	Purification Equipment	418	5.0
13	Other Equipment	419	5.0
14	<u>Fort Nelson</u>		
15	Land	410	-
16	Land Rights	411	3.5
17	Compressor Structures	412	3.0
18	Gathering Lines	415	3.5
19	Compressor Equipment	416	3.0
20	<u>Beaver River/Pointed Mountain</u>		
21	Land	410	-
22	Land Rights	411	7.0
23	Compressor Structures	412	6.0
24	Gathering Lines	415	7.0
25	Compressor Equipment	416	6.0

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Line Number	Particulars	NEB Account Number	Approved Rates %
26	<u>Boundary Lake</u>		-*
	<u>Products Extraction Plant</u>		
27	<u>Fort St. John - Taylor</u>		
28	Land	420	-
29	Land Rights	421	0.9
30	Structures	422	0.9
31	Extraction Equipment	423	2.2
32	Pipelines	425	2.2
33	Measuring Equipment	427	2.2
34	Purification Equipment	428	2.2
35	<u>Fort Nelson</u>		
36	Land	420	-
37	Land Rights	421	1.7
38	Structures	422	1.7
39	Measuring Equipment	427	4.4
40	Purification Equipment	428	4.4
41	<u>Transmission Plant</u>		
42	Land	460	-
43	Land Rights	461	3.33
44	Compressor Structures	462	3.33
45	Measuring Structures	463	3.33
46	Other Structures	464	3.33
47	Mains	465	3.33
48	Compressor Equipment	466	5.0
49	Measuring Equipment	467	5.0
50	<u>General Plant</u>		
51	Land	480	-
52	Land Rights	481	10.0
53	Structures	482	3.0
54	Leaseholds	482	6.5
55	Houses	482	3.0
56	Furniture	483	8.0
57	Transportation Equipment - Under 5 Tons	484	22.5
58	Transportation Equipment - Over 5 Tons	484	14.0
59	Work Equipment	485	5.5
60	Tools	486	10.0
61	Communications	488	10.0
62	Other Equipment	489	5.0

*Fully depreciated under Pan-Alberta Contract.

SCHEDULE E

Approved Budgets for Westcoast
Transmission Company Limited for
the Year commencing on 1 July
1979 and ending on 30 June 1980

1. The approved budget for salaries, wages and benefits included in Operating and Maintenance Expenses is \$16.8 million.
2. The approved budget for Operating and Maintenance Expenses other than salaries, wages and benefits is \$16.0 million.

WESTCOAST TRANSMISSION COMPANY LIMITED



